Elektrociepłownia Będzin S.A. Group

Independent Auditor's Report

Financial Year ended

31 December 2017

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Please also note, we have not been engaged in any procedures regarding financial statements and other documents in English.

INDEPENDENT AUDITOR'S REPORT

To the General Shareholders' Meeting of Elektrociepłownia Będzin S.A.

Report on the Audit of the Annual Consolidated Financial Statements

We have audited the accompanying annual consolidated financial statements of the Group, whose parent entity is Elektrociepłownia Będzin S.A., with its registered office in Poznań, Bolesława Krzywoustego 7 Street (the "Group"), which comprise the introduction to the consolidated financial statements, the consolidated balance sheet as at 31 December 2017, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement for the year then ended and the supplementary information and explanations (the "consolidated financial statements").

Responsibility of the Management Board and Supervisory Board of the Parent Entity for the consolidated financial statements

The Management Board of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the accounting act dated 29 September 1994 (Official Journal from 2018, item 395 with amendments) (the "Accounting Act"), related bylaws and other applicable laws. The Management Board of the Parent Entity is also responsible for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act, the Management Board and members of the Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility for the audit of the consolidated financial statements

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with:

- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089) (the „Act on certified auditors");
- International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance; and
- Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-listed entities and repealing Commission Decision 2005/909/EC (Official Journal of the European Union L 158 from 27.05.2014, page 77 and Official Journal of the European Union L 170 from 11.06.2014, page 66) (the "EU Regulation").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the regulations mentioned above will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve collusion, forgery, deliberate omission, intentional misrepresentations or override of internal controls.

The scope of audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the Management Board has conducted or will conduct the affairs of the Group.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board of the Parent Entity, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The most significant assessed risks of material misstatements

During our audit we identified the most significant assessed risks of material misstatements (the "key audit matters"), including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	**Our procedures**

Impairment of long-term assets

Carrying value of property, plant and equipment of the Group amounted to PLN 251.643 thousand as at 31 December 2017, including PLN 223.593 thousand of property, plant and equipment of energy segment (PLN 240.454 thousand and PLN 205.537 thousand, respectively, as at 31 December 2016).

Carrying value of goodwill, attributable to acquisition of shares of Energetyczne Przedsiębiorstwo Finansowo-Leasingowe Energo-Utech S.A. as at 31 December 2017 amounted to PLN 1.937 thousand (PLN 1.937 thousand as at 31 December 2016).

The Group's core business activity is production of energy (through subsidiary Elektrociepłownia Będzin Sp. z o.o.) and lease and factoring services (through subsidiary Energetyczne Przedsiębiorstwo Finansowo-Leasingowe Energo-Utech S.A.)

The Group's capitalization rate on Warsaw Stock Exchange as at 31 December 2017 was below the carrying amount of its net assets, which in line with the respective financial reporting standards is one of the long-term assets impairment indicators.

Due to the above, respective impairment tests of assets were performed as at 31 December 2017 in order to compare their recoverable and carrying values. Recoverable amount was estimated as the value in use equal to present value of future cash flows, the Parent Entity expects from continuing use of the assets.

Assessment of the recoverable amount of the long-term assets is based on significant assumptions and estimates, especially regarding value of future cash flows and assumed discount rate, and requires the Parent Entity to make a number of complex judgements. Additionally, regarding assessment of value of property, plant and equipment of energy segment, the forecast of future cash flows depends on energy price trends, future price of coal and carbon dioxide emission rights, which is subject to uncertainty, due to changing market conditions and significant changes in laws and regulations.

Due to the above and also due to the significance of the carrying value of long-term assets for consolidated financial statements of the Group, impairment of long-term assets was considered key audit matter.

Our audit procedures in this area included, among others:

- evaluating of compliance of applied accounting policy with applicable financial reporting standards,
- evaluating of allocation of assets to CGUs,
- involving our own valuation specialist to assist in evaluating the appropriateness and integrity of future cash flows financial model used by the Group in assessment of recoverable value of assets, including comparison of applied methodologies to general practice in impairment testing,
- challenging the appropriateness and reasonableness of the assumptions and estimates applied in the abovementioned model, including:

Regarding assessment of the recoverable amount of assets involved in production of energy:

- comparing of forecasted prices and volumes to production capacity and signed sales contracts, as well as comparison of forecasted gross margin to historical data of Elektrociepłownia Będzin Sp. z o.o. and analysis of assumptions regarding development of cost base, split into fixed and variable operating expenses,
- analysis of forecast with regards to capex through vouching to long-term development plans of Elektrociepłownia Będzin Sp. z o.o. and regulations of respective concession for production of energy;

Regarding assessment of the recoverable amount of assets involved in lease and factoring services:

- comparing of forecast regarding interest income and income from commissions to signed and negotiated contracts and historical trends, as well as comparison of projected interest and commission costs and G&A expenses to historical data of

Energetyczne Przedsiębiorstwo Finansowo-Leasingowe Energo-Utech S.A.

Regarding specific data of estimates:

— comparing of applied macroeconomic assumptions, especially the discount rates applied, to external sources;

- evaluating the quality of estimates through historical accuracy, especially with regards to revenues and expenses;

- evaluating the Management's sensitivity analysis of the impairment tests for key assumptions, including assessment of revaluation in challenging of the appropriateness and reasonableness of the assumptions and estimates described above;

- evaluating the adequacy of the financial statement disclosures in consolidated financial statements of the Group, including disclosures of key assumptions, judgements and sensitivities.

Opinion

In our opinion, the accompanying consolidated financial statements of Elektrociepłownia Będzin S.A. Group:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Accounting Act, related bylaws, and in accordance with the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Entity's articles of association.

Report on other legal and regulatory requirements

Report on the Group activities

Our opinion on the consolidated financial statements does not cover the report on the Group's activities (the "report on activities").

The Management Board of the Parent Entity is responsible for the preparation of the report on activities in accordance with the requirements of the Accounting Act and other applicable laws. Furthermore, the Management Board and members of the Supervisory Board of the Parent Entity are also required to ensure that the report on activities is in compliance with the requirements set forth in the Accounting Act.

In accordance with the Act on certified auditors our responsibility was to determine if the report on activities was prepared in accordance with applicable laws and the information given in the report on activities is consistent with the consolidated financial statements. Our responsibility was also to state, if based on our knowledge about the Group and its environment obtained in the audit, we have identified material misstatements in the report on the activities and describe the nature of each material misstatement.

Based on the work undertaken in the course of our audit of the consolidated financial statements, in our opinion, the accompanying report on activities in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the consolidated financial statements.

Furthermore, based on our knowledge about the Group and its environment obtained in the audit, we have not identified material misstatements in the report on activities.

Opinion on corporate governance statement

The Management Board and members of the Supervisory of the Parent Entity are responsible for preparation of the corporate governance statement in accordance with the applicable laws.

In connection with the audit of the consolidated financial statements, our responsibility in accordance with the requirements of the Act on certified auditors was to report whether the issuer of securities obliged to prepare a corporate governance statement, constituting a separate part of the report on activities, included information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the consolidated financial statements.

In our opinion the corporate governance statement, which is a separate part of the report on the Group's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, j, k and letter l of the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "decree").

Furthermore, in our opinion the information identified in paragraph 91 subparagraph 5 point 4 letter c-f, h and letter i of the:

- has been prepared in accordance with the applicable laws; and
- is consistent with the consolidated financial statements.

Independence and the appointment of the audit firm

Our opinion on the audit of consolidated financial statements is consistent with our report to the Audit Committee.

During our audit the key certified auditors and the audit firm remained independent of the Group in accordance with requirements of the Act on certified auditors, the EU Regulation and the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' (IFAC) as adopted by the resolutions of National Council of Certified Auditors.

We declare that, to the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

We have been appointed for the first time to audit consolidated financial statements by resolution dated 18 February 2014 and reappointed by resolution dated 20 March 2017.

Our total uninterrupted period of engagement is 4 years, covering the periods ending 31 December 2014 to 31 December 2017.

On behalf of audit firm
KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original	*Signed on the Polish original*
....	....
Rafał Wiza Key Certified Auditor Registration No. 11995 Limited Lability Partner with power of attorney	Dominik Walawender Key Certified Auditor Registration No. 13077

27 April 2018

Poznań, 27 April 2018

Dear Sirs and Madams,
Dear Shareholders,

I am pleased to present you the fifth report summarizing the economic activity of Electrociepłownia "Będzin" SA. This time for the financial year 2017.
The Company may deem the past year very successful in terms of development of the Capital Group, in which the Company acts as the dominant entity, conducting capital activity and corporate governance over the subsidiaries. Within the corporate governance we focus mainly on investment activities in companies of Elektrociepłownia "Będzin" SA Capital Group. We aim for the investments within the Group, as well as the development of new projects, to generate new, higher quality and value of the Company. The business model of Elektrociepłownia "Będzin" S.A. strives towards a holding company that groups companies not only from the energy sector, availing of the financial services, knowledge and support of the Energo-Utech S.A company. We are constantly working on formulating the Group's development strategy and achieving the assumed goals. We are actively searching partners with whom we can perform new investment projects. In 2017, the subsidiary Energo-Utech S.A. took over the controlling stake in Energo Biomasa Sp. z o.o., in which a successful restructuring was carried out. At the same time, the company favorably sold a minority stake in Promobil Fleet Sp. z o.o.

Owing to the meetings with investors held in 2017, we could keep the investors up to date on the current situation in the Group, and respond to their questions. I would like to thank the investors for the trust in us, which is reflected in the constantly growing trend of the share price on the Warsaw Stock Exchange. As at 31 December 2017, the share price reached 26.90, which is a 17% increase compared to 2016 and over 80% increase compared to 2015.

A significant success of 2017, and at the same time an important step in the development of the Capital Group, was the completion of investments allowing the operation of Elektrociepłownia Będzin Sp. z o.o. in the long term. The Group has built and financed an investment of over PLN 130m adjusting the heat and power plant to environmental protection requirements.

Also in 2017, the Management Board of Elektrociepłownia Będzin S.A. decided to consider strategic options by selling a significant asset – the Elektrociepłownia Sp. z o.o.Company. From September to December 2017, selected industry related companies conducted a detailed due diligence study of the Company. The result of which was the submission of offers for the purchase of 100 percent of shares in Elektrociepłownia Sp. z o.o. I would like to thank all participants of the process for a professional and credible approach. I hope that all materials provided have confirmed the favourable and stable position of our Company. Since December 2017, individual conversations have started with the selected bidder who submitted the most advantageous offer, the result of which will be presented in 2018.

The year 2017, similarly to 2016, was closed with a very good financial result and fully successful implementation of the tasks planned by the Capital Group. These achievements were possible owning to the effective cooperation and involvement of the Management Boards of the Group Companies, the support of the Supervisory Board of Elektorciepłownia Będzin, as well as the hard work of the management staff and the daily efforts of all the employees, with the support of co-operating companies. Hereby, I would like to cordially thank you all for this invaluable contribution to the development of the Capital Group.

Sincerely yours,

Krzysztof Kwiatkowski
President of the Management Board of Elektrociepłownia „Będzin" S.A.

Poznań, 27 April 2018

Statement of the Management Board of Elektrociepłownia „Będzin" S.A on the reliability of the preparation of the financial statements of Elektrociepłownia „Będzin" S.A for the period from 1 January 2017 to 31 December 2017

The Management Board of Elektrociepłownia „Będzin" S.A. hereby declares that to its best knowledge – the annual financial statements for the period from 1 of January 2017 to 31 December 2017 and the comparable data, have been prepared in accordance with the applicable accounting policies, and that they reflect in a true, reliable and transparent manner, the financial standing and the financial result of Elektrociepłownia „Będzin" S.A.

The report of the Management Board of Elektrociepłownia „Będzin" S.A. on the Company's operations for the year 2017 includes a true description, including the description of the risks associated with the next financial year.

Krzysztof Kwiatkowski - President of the Management Board ....

Poznań, 27 April 2018

Statement of the Management Board of Elektrociepłowna „Będzin" S.A. on the entity authorized to audit the financial statements of the Elektrociepłownia „Będzin" S.A. Capital Group

According to our deepest conviction and knowledge we declare that the entity authorized to audit financial statements - KPMG Audyt Sp. z o.o. Sp. - the auditor of the financial statements for the financial year 2017 was selected in accordance with the law and that the entity and the statutory auditors performing the audit met the conditions for an impartial and independent audit report in accordance with the applicable national law.

Krzysztof Kwiatkowski - President of the Management Board ....

ELEKTROCIEPŁOWNIA "BĘDZIN" S.A.
CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE ACCOUNTING YEAR
ENDING ON 31 DECEMBER 2017
COMPLIANT WITH THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS APPROVED BY EU

CONTENTS

1. General information

These financial statements for the period of 12 months ending on 31 December 2017 have been produced pursuant to the International Financial Reporting Standards approved by the European Union. The statements present in a reliable and transparent manner the asset and financial standing of Elektrociepłownia „Będzin" S.A. Capital Group, have been approved for issue by the Management Board of Elektrociepłownia "Będzin" S.A. (parent company) and incorporate the following:

- Consolidated statement of financial position produced as at 31 December 2017,
- Consolidated Profit and Loss Account and other comprehensive income for the period from 1 January to 31 December 2017,
- Consolidated statement of changes in equity for the period from 1 January to 31 December 2017,
- Consolidated Cash flow statement for the period from 1 January to 31 December 2017,
- Additional information to the consolidated financial statements.

Management Board of Elektrociepłownia "Będzin" S.A.

Krzysztof Kwiatkowski
President of the Management Board

Signature of the individual in charge of accountancy and representing the book keeping entity

Bożena Poznańska

Poznań, 27 April 2018

(as per the IFRS of the EU, in PLN k)

2. Consolidated statement of financial position

	Note	As at 31.12.2017	As at 31.12.2016
Assets			
Fixed assets			
Tangible fixed assets	19	251 643	240 454
Intangible assets	20	4 187	4 984
Goodwill	11	1 937	1 937
Investments measured by equity method	21	-	659
Receivables under lease agreements	23	223 622	260 215
Granted loans	24	10 669	12 858
Trade debtors and other debtors	25	1 500	2 209
Deferred tax assets	22	971	1 109
Total fixed assets		**494 529**	**524 425**
Current assets			
Inventories	26	20 546	27 027
Receivables under lease agreements	23	113 412	90 444
Granted loans	24	27 774	22 922
Trade debtors and other debtors	25	23 397	39 492
Income tax receivables		411	-
Cash and cash equivalents	27	30 228	22 216
Accruals	28	77	60
Total current assets		**215 845**	**202 161**
Total assets		**710 374**	**726 586**

Explanatory notes to consolidated financial statements represent its integral part

(as per the IFRS of the EU, in PLN k)

	Note	As at 31.12.2017	As at 31.12.2016
Liabilities			
Equity	29		
Share capital		37 728	37 728
Supplementary capital		48 288	45 352
Reserve capital		44 843	26 938
Defined benefits plan revaluation reserve		(125)	266
Retained profits		38 960	45 455
Total equity		**169 694**	**155 739**
Long-term liabilities			
Liabilities under loans, borrowings and other debt instruments	31	289 099	334 765
Liabilities under employee benefits	32	9 305	8 424
Trade creditors and other creditors	33	5 597	17 038
Provisions	34	4 744	7 412
Deferred income tax provisions	22	8 496	6 674
Total long-term liabilities		**317 241**	**374 313**
Short-term liabilities			
Liabilities under loans, borrowings and other debt instruments	31	172 530	150 462
Trade creditors and other creditors	33	31 788	21 890
Liabilities under employee benefits	32	4 754	4 165
Deferred income tax liabilities		465	5 213
Provisions	34	13 902	14 804
Total short-term liabilities		**223 439**	**196 534**
Total liabilities		**540 680**	**570 847**
Total liabilities		**710 374**	**726 586**

Explanatory notes to consolidated financial statements represent its integral part

(as per the IFRS of the EU, in PLN k)

3. Consolidated statement of profit and loss account and other comprehensive income

	Note	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Revenues	13	204 757	190 469
Other operating revenues	14	7 448	3 406
Amortization and depreciation		(19 361)	(16 653)
Consumption of materials and energy		(89 326)	(71 762)
External services		(23 285)	(17 511)
Taxes and charges		(5 741)	(5 383)
Payroll and employee benefits		(28 600)	(27 168)
Other costs by type		(1 877)	(1 852)
Value of goods and materials sold		(2 095)	(4 401)
Other operating expenses	15	(2 085)	(7 733)
Profit on operating activities		**39 835**	**41 412**
Financial revenues	16	1 592	3 902
Financial expenses	16	(22 182)	(20 812)
Net financial revenues/ (expenses)		**(20 590)**	**(16 910)**
Gross profit		**19 245**	**24 502**
Income tax	18	(4 899)	(5 043)
Net profit		**14 346**	**19 459**
Net profit for reporting term		**14 346**	**19 459**
Other total income not taken to financial result in future reporting periods			
Revaluation of net liability under defined benefits plan		(483)	226
Income tax on items not taken to financial result		92	(43)
		(391)	183
Other comprehensive income for reporting period		(391)	183
Profits or losses and other comprehensive income for reporting period		**13 955**	**19 642**
Net profit per share			
Main (in PLN)	30	4,6	6,2
Diluted (in PLN)	30	4,6	6,2

Explanatory notes to consolidated financial statements represent its integral part

(as per the IFRS of the EU, in PLN k)

4. Consolidated statement of changes in equity

	Note	Share capital	Supplementary capital	Reserve capital	Defined benefits plan revaluation reserve	Retained profits	Total equity
Equity as at 01.01.2017		**37 728**	**45 352**	**26 938**	**266**	**45 455**	**155 739**
Net profit distribution	*29*	-	2 936	17 905	-	(20 841)	-
Profits or losses for reporting period							
Net profit for reporting period		-	-	-	-	14 346	14 346
Other comprehensive income for reporting period							
Revaluation of net liability under defined benefit plan (adjusted by tax)	*32*	-	-	-	(391)	-	(391)
Profits or losses and other comprehensive income for reporting period		-	-	-	(391)	14 346	13 955
Total payments to and from owners		-	-	-	-	-	-
Equity as at 31.12.2017		**37 728**	**48 288**	**44 843**	**(125)**	**38 960**	**169 694**

	Note	Share capital	Supplementary capital	Reserve capital	Defined benefits plan revaluation reserve	Retained profits	Total equity
Equity as at 01.01.2016		**37 728**	**42 636**	**15 261**	**83**	**40 389**	**136 097**
Net profit distribution	*29*	-	2 716	11 677	-	(14 393)	-
Profits or losses for reporting period							
Net profit for reporting period		-	-	-	-	19 459	19 459
Other comprehensive income for reporting period							
Revaluation of net liability under defined benefit plan (adjusted by tax)	*32*	-	-	-	183	-	183
Profits or losses and other comprehensive income for reporting period		-	-	-	183	19 459	19 642
Total payments to and from owners		-	-	-	-	-	-
Equity as at 31.12.2016		**37 728**	**45 352**	**26 938**	**266**	**45 455**	**155 739**

Explanatory notes to consolidated financial statements represent its integral part

(as per the IFRS of the EU, in PLN k)

5. Consolidated cash flow statement

	Note	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Cash flows from operating activity			
Gross profit		**19 245**	**24 502**
Adjustments			
Depreciation of tangible fixed assets	19	18 478	15 837
Amortisation of intangible assets	20	883	815
Profit on investment activity		(406)	(3 234)
Change in receivables under lease agreements	38	15 363	(20 616)
Change in granted loans		(2 663)	54 418
Change in inventories		6 416	6 440
Change in trade debtors and other debtors	38	17 028	(13 605)
Change in trade creditors and other creditors	38	(2 023)	5 042
Change in provisions for employee benefits	38	(2 430)	4 468
Change in accruals		(46)	(121)
Other changes		(467)	344
Cash flows from operating activity		**69 378**	**74 290**
Net financial revenues/(costs)	16	20 311	19 334
Interest received		(299)	(151)
Interest paid		-	
Income tax paid	38	(7 434)	(1 877)
Net cash flows from operating activity		**81 956**	**91 596**
Cash flows from investment activity			
Purchase of tangible fixed assets	38	(8 873)	(21 097)
Purchase of intangible assets		(249)	(154)
Purchase of shares and interests		(505)	(659)
Purchase of other investments		-	(1 257)
Disposal of tangible fixed assets		2 132	67
Disposal of shares and interests		-	9 650
Disposal of other investments		872	-
Received dividends		-	350
Received interest		299	151
Other		492	-
Net cash flows from investment activity		**(5 832)**	**(12 949)**
Cash flows from financial activity			
Raised loans, credits and other debt instruments		187 087	303 972
Repaid loans, credits and other debt instruments		(234 154)	(350 777)
Payments under financial lease agreements		(1 399)	(1 350)
Interest paid	16	(19 646)	(18 472)
Dividends paid out		-	-
Net cash flows from financial activity		**(68 112)**	**(66 627)**
Net cash flows from financial activity		**8 012**	**12 020**
Opening balance of cash and cash equivalents		**22 216**	**10 196**
Closing balance of cash and cash equivalents		**30 228**	**22 216**
including restricted cash		7 690	6 285

Explanatory notes to consolidated financial statements represent its integral part

(as per the IFRS of the EU, in PLN k)

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Data of the parent entity and of the Capital Group

Elektrociepłownia "Będzin" S.A. is the parent company of Elektrociepłownia "Będzin" S.A. Capital Group registered in Poland with the registered office in Poznań (61-144) at ul. Bolesława Krzywoustego 7.

The consolidated financial statements for the period from 1 January to 31 December 2017 incorporate the financial statements of the parent company and its subsidiaries (referred to jointly as the "Capital Group").

The share capital of the parent entity totals PLN 15,746.00 and is divided into 3,149,200 shares series A with the nominal value of PLN 5 each. The equity has been revaluated as per the information referred to in Note 29.

The parent company is registered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000064511 as per the decision of the District Court in Katowice dated 18 December 2001. REGON: 271740563 and NIP: 6250007615.

The period of business activity of Elektrociepłownia "Będzin" S.A. as the parent entity and entities making up the Capital Group has not been specified.

The principal activities of the parent company and of the Capital Group are:
- heat generation (water steam and hot water),
- electricity generation,
- financial leasing,
- other financial services.

Subsidiaries as at 31 December 2017

Name and registered office	Country	Share % 2017	2016
Elektrociepłownia BĘDZIN Sp. z o.o. ul. Małobądzka 141, Będzin	Poland	100	100
Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. Ul. Bolesława Krzywoustego 7, Poznań	Poland	100	100
ENERGO-BIOMASA Sp. z o. o. Suliszewo 97, 78-500 Drawsko Pomorskie	Poland	99.95	-

As at the day of approving these consolidated financial statements for issue and as at 31 December 2017, the composition of the management and supervisory bodies of the parent company was as follows:

Management Board
Krzysztof Kwiatkowski - President of the Management Board

Supervisory Board
Janusz Niedźwiecki - Chairman of the Supervisory Board
Waldemar Organista - Deputy Chairman of the Supervisory Board
Wiesław Glanowski - Member of the Supervisory Board
Grzegorz Kwiatkowski - Member of the Supervisory Board
Mirosław Leń - Member of the Supervisory Board
Wojciech Sobczak - Member of the Supervisory Board

Audit Committee at the Supervisory Board

Janusz Niedźwiedzki	- Chairman of the Audit Committee
Waldemar Organista	- Member of the Audit Committee
Grzegorz Kwiatkowski	- Member of the Audit Committee

7. Basis for the consolidated financial statements

7.1 Statement on compliance

These consolidated financial statements for the period from 1 January to 31 December 2017 have been produced as per the International Financial Reporting Standards ("IFRS") approved by the European Union ("EU") and the Resolution of the Ministry of Finance dated 19 February 2009 (Journal of Laws from 2014, item 133) on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as being equivalent to information required by regulations of law of a state which is not a member state.

7.2 Basis for valuation

These consolidated financial statements have been produced based on the historic cost principle except for financial instruments measured at fair value.

7.3 Functional and presentation currency

Data in the consolidated financial statements have been presented in thousand Polish zloty unless indicated otherwise. Polish zloty is a functional currency of the parent company and reporting currency of the Capital Group.

7.4 Judgements and estimates

In order to prepare consolidated financial statements as per the IFRS the EU requires the Management Board of the parent company to make judgements, estimates and assumptions impacting the applied accounting principles and recognizing the value of assets, liabilities, revenues and costs whose actual values may differ from the estimated ones.

These consolidated financial statements have been produced assuming business continuity in the foreseeable future.

The estimates and related assumptions are subject to an on-going verification. Changes in accounting estimates are accounted for on a prospective basis as of the period when the estimate was changed.

Information about significant judgements in the process of applying accounting principles that have the most significant impact on the values recognised in the consolidated financial statements has been presented in the following notes:
- Note 19 Tangible fixed assets
- Note 21 Investments measured with equity method
- Note 23 Receivables under lease agreements
- Note 24 Granted borrowings
- Note 31 Obligations under loans, borrowings and other debt instruments
- Note 32 Employee benefits
- Note 34 Provisions

7.5 New standards and interpretations

The following new standards, amendments to standards and interpretations have not been adopted by the EU or are not applicable to annual periods ending on 31 December 2017 and have not been applied for these consolidated financial statements:

Standards and interpretations *[IAS 8.31 (a), 8.31 (c)]*	**Type of anticipated change in the accounting principles** *[IAS 8.31 (b)]*	**Potential impact on financial statements** *[IAS 8.30 (b), 8.31 (e)]*
IFRS 15 *Revenue from Contracts with Customers* and Amendments to IFRS 15 *Revenue from Contracts with Customers* (valid for annual periods beginning on 1 January 2018, earlier application is permitted)	This standard contains principles that will replace most of the detailed guidelines for recognizing revenues currently existing in the IFRS. According with the new standard, entities will apply a five-level model to determine the moment of recognition of revenues and their amount. This model assumes that revenues should be recognized when (or to the extent to which) the entity transfers control over the goods or services to the customer and in the amount to which the entity expects to be entitled. Depending on the fulfilment of certain criteria, revenues are: • spread over time, in a way that illustrates the performance of a contract by an entity, or • recognized on a one-off basis, when the control over goods or services is transferred onto the customer. IFRS 15 contains new disclosure requirements, both quantitative and qualitative ones, aimed at enabling users of financial statements to understand the nature, amount, timing and uncertainty regarding revenues and cash flows arising from contracts with customers. Amendments to IFRS 15 clarify certain requirements of the Standard and include additional simplifications regarding the transition period for entities that implement the new Standard. The changes explain how to: • identify contractual obligations (a promise to transfer goods or services); • determine whether the company acts on its own behalf by providing goods or services, or acts as an agent (it is responsible for organizing the delivery of goods or rendering services); and	Although the assessment of the potential impact of the application of IFRS 15 on the Group's financial statements has not been yet completed, the management board does not expect the new standard, at the time of its application, to have a significant impact on the Group's financial statements. The moment of recognition or the recognized amount are not expected to change as a result of the application of IFRS 15 due to the nature of the Group's operations and the types of generated revenues.

Standards and interpretations *[IAS 8.31 (a), 8.31 (c)]*	**Type of anticipated change in the accounting principles** *[IAS 8.31 (b)]*	**Potential impact on financial statements** *[IAS 8.30 (b), 8.31 (e)]*
	• determine whether revenue from license granting should be recognized on a one-off basis or spread over time. In addition, the changes include two additional simplifications: • the entity does not have to transform contracts that are terminated at the beginning of the earliest period presented (for entities applying the full retrospective method); and • for contracts that were subject to modifications before the beginning of the earliest period presented, the entity does not have to retrospectively reconstruct the contract, only reflect the cumulative effect of all modifications that occurred before the beginning of the earliest period presented (also for units that choose the option of demonstrating the cumulative effect of the initial application as at the date of application for the first time).	

(as per the IFRS of the EU, in PLN k)

Standards and interpretations *[IAS 8.31 (a), 8.31 (c)]*	**Type of anticipated change in the accounting principles** *[IAS 8.31 (b)]*	**Potential impact on financial statements** *[IAS 8.30 (b), 8.31 (e)]*
IFRS 9 *Financial Instruments* (2014) (valid for annual periods beginning on or after 1 January 2018, retrospective application with some exceptions. Transformation of previous periods is not required and is only permitted if information is available to enable such transformation without using knowledge gained post factum. Earlier application is permitted)	The new standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*, except that an entity has a choice of accounting policy and it can chose to apply to hedge accounting the principles in accordance with IFRS 9 or to continue the guidelines of IAS 39, including the IASB macroeconomic standard, except for the provisions of IAS 39 regarding the fair value hedge against interest rate risk exposure of the portfolio of financial assets and liabilities, which still applies. Although the acceptable methods of measurement of financial assets, i.e. amortized cost, fair value through other comprehensive income and fair value through profit or loss, are similar to IAS 39, then the criteria for classification in individual categories are significantly different. A financial asset is classified to the category measured after initial recognition at amortized cost, if the following two conditions are met: • assets are maintained as part of a business model whose purpose is to maintain assets in order to obtain cash flows arising from the contract; and • its contractual terms give rise, at certain times, to cash flows that solely represent the repayment of principal and interest on the unpaid part of the capital. In a situation where the above conditions are not met (as is the case for equity instruments of other entities), the financial asset is measured at fair value. Gains and losses on the measurement of financial assets measured at fair value are recognized as a result of the current period, with	The Group expects that at the time of initial application, the Standard will not have a material impact on the consolidated financial statements of the Group.

Standards and interpretations *[IAS 8.31 (a), 8.31 (c)]*	**Type of anticipated change in the accounting principles** *[IAS 8.31 (b)]*	**Potential impact on financial statements** *[IAS 8.30 (b), 8.31 (e)]*
	the exception of assets held under the business model, the purpose of which is to maintain assets both to obtain cash flows from contracts and sell them - for these assets gains and losses from measurement are recognized in other comprehensive income. In addition, if an investment in an equity instrument is not intended for trading, IFRS 9 enables an irreversible decision to measure such financial instrument at the time of initial recognition at fair value through other comprehensive income (including foreign exchange gains or losses)). Values recognized in other comprehensive income in connection with the above valuation cannot be reclassified to the result of the current period in the subsequent periods, regardless of the circumstances. In the case of debt instruments measured at fair value through other comprehensive income, interest income, expected credit losses and foreign exchange gains and losses are recognized in profit or loss as in the case of assets measured at amortized cost. Other gains and losses are recognized in other comprehensive income and reclassified to the result of the current period at exclusion. As regards the estimate of impairment of financial assets, IFRS 9 replaces the "loss suffered" model included in IAS 39 with the "expected loss" model, which means that the event causing the loss would not have to precede its recognition and write-down. The new impairment model will apply to assets measured at amortized cost and fair value through other comprehensive income, with the exception of investments in equity instruments and assets resulting from contracts. According to IFRS 9, the loss is determined based on:	

(as per the IFRS of the EU, in PLN k)

Standards and interpretations *[IAS 8.31 (a), 8.31 (c)]*	**Type of anticipated change in the accounting principles** *[IAS 8.31 (b)]*	**Potential impact on financial statements** *[IAS 8.30 (b), 8.31 (e)]*
	• credit loss expected within 12 months from the reporting date, or • life-time expected loss. IFRS 9 introduces a new model of hedge accounting, which combines hedge accounting with risk management to a greater extent. The types of hedging links remain unchanged (fair value, cash flows and net investments in foreign enterprises), but the standard requires additional judgments. The standard contains additional requirements for the achievement, continuation and termination of hedge accounting and allows for determining additional exposures to hedged instruments. IFRS 9 requires extensive additional disclosures in terms of risk management by entities and applied collateral.	
Amendments to the International Financial Reporting Standards 2014-2016	The annual improvements to IFRS 2014-2016 include 3 amendments to the standards. Main amendments: • removal of short-term exemptions for units applying IFRS for	The above changes are not expected to have a significant impact on the Group's financial statements.

(as per the IFRS of the EU, in PLN k)

Standards and interpretations *[IAS 8.31 (a), 8.31 (c)]*	**Type of anticipated change in the accounting principles** *[IAS 8.31 (b)]*	**Potential impact on financial statements** *[IAS 8.30 (b), 8.31 (e)]*
(valid for annual periods beginning on 1 January 2018, except for amendments to IFRS 12 that are effective for annual periods beginning on 1 January 2017)	the first-time (IFRS 1 First-time Adoption of International Financial Reporting Standards) regarding, inter alia, transitional provisions of IFRS 7 *Financial Instruments: Disclosure* Disclosures in terms of disclosure of comparative information and transfer of financial assets and IAS 19 *Employee Benefits*; • clarification that the requirements of IFRS 12 *Disclosure of Interests in Other Entities* (except for the disclosures of condensed financial information in accordance with paragraphs B10-B16 of this standard) also apply to shares in a subsidiary, associate, joint venture and structured non-consolidated entity that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations;* and • clarification that the choice for an exemption from the equity method in accordance with IAS 28 *Investments in associates and joint ventures* should be made separately for each associate or joint venture upon initial recognition of the associate or joint venture.	
Amendments to IFRS 2 (Share-based Payments) (valid for annual periods beginning on 1 January 2018, prospective application and earlier application is permitted)	Amendments clarifying the manner of recognizing some payment transactions based on shares, they include the requirements for the recognition of: • the impact of the vesting conditions and conditions other than the vesting conditions on the valuation of share-based payment transactions settled in cash; • transactions based on shares with net settlement features including obligations arising from tax requirements; and • modification of share-based transaction terms that change the	The Group does not expect the amendments to have a significant impact on its financial statements because the entity is not a party to share-based transactions.

(as per the IFRS of the EU, in PLN k)

Standards and interpretations *[IAS 8.31 (a), 8.31 (c)]*	**Type of anticipated change in the accounting principles** *[IAS 8.31 (b)]*	**Potential impact on financial statements** *[IAS 8.30 (b), 8.31 (e)]*
	classification of these transactions from those settled in cash to those settled in equity instruments	
Amendments to IAS 40 *Investment Property* (valid for annual periods beginning on 1 January 2018, earlier application is permitted)	The changes include explanations regarding the transfer to or from investment properties: • transfer to or from investment property should take place only in the case of a change in the manner of using the property; and • along with the change in the way the property is used, an assessment should be made as to whether the property is eligible as investment property.	The Group does not expect that at the time of initial application the changes will have a significant impact on the entity's financial statements because the entity transfers real estate to or from investment property when the property purpose is changed.
IFRIC 22 *Foreign Currency Transactions and Advances* (valid for annual periods beginning on January 1, 2018, earlier application is permitted)	IFRIC 22 provides currency exchange guidelines that should be used to recognized foreign currency transactions (such as revenue transactions) when a payment is made or received earlier in the form of an advance, and explains that the date of these transactions is the date of the initial transaction. recognition of prepayment or deferred income resulting from the advance payment. In the case of transactions in which a numerous payments - made or received – take place, a separate transaction date is determined for each such transaction.	The Group does not expect the Interpretation to have a significant impact on its financial statements because the entity applies the exchange rate as of the date of initial recognition of non-monetary assets or non-monetary liabilities resulting from payment or receipt of an advance.

- Amendments to IFRS 4: IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts can be applied for annual periods beginning on 1 January 2018, prospective application,
- IFRS 16 Leasing – applicable to annual periods beginning on 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15,
- Sale or Transfer of Assets between the Investor and the Associates or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Associates) - the European Commission has decided to postpone the approval of these amendments for an indefinite period,
- IFRS 17 Insurance Contracts – applicable to annual periods beginning on 1 January 2021, prospective application, earlier application is permitted, the Standard has not yet been approved by the EU,
- IFRIC 23 Uncertainty over Income Tax Treatments - applicable to annual periods beginning on 1 January 2019. Earlier application is permitted. The interpretation has not yet been approved by the EU.
- Amendments to IFRS 9 Financial Instruments – applicable to annual periods beginning on 1 January 2019, earlier application is permitted, amendments have not yet been approved by the EU,
- Amendments to IAS 28 Investments in Associates and Joint Ventures, applicable to annual periods beginning on 1 January 2019, changes have not yet been approved by the EU,
- Amendments to the International Financial Reporting Standards 2015-2017, applicable to annual periods beginning on 1 January 2019, the amendments have not yet been approved by the EU,
- Amendments to IAS 19 Employee Benefits (Changes, Limitations or Settlements of the Plan) - effective for annual periods beginning on 1 January 2019, the amendments have not yet been approved by the EU.

The Group intends to apply them for the periods for which they will be applicable for the first time.

The Group has not analysed the impact of new Standards, amendments to Standards and Interpretations on its financial standing and performance.

8. Description of key accounting principles

The accounting principles (Policy) outlined below have been applied to all periods presented in the consolidated financial statements of the Capital Group unless indicated otherwise.

8.1 Consolidation principles

Subsidiaries

Subsidiaries mean entities controlled by the parent company. Control takes place when the parent entity is exposed or entitled to variable financial performance and may exert impact on the level of such financial performance by exercising power over the subsidiary. When assessing the level of control the impact of existing and potential voting rights are considered which as at the balance sheet day may be exercised or may be subject to conversion.

The subsidiaries are subject to consolidation from the beginning to the end of the control by the parent company.

The subsidiaries are subject to consolidation from the beginning to the end of the control by the parent company.

Associates and joint ventures

Associates are business entities whose operational and financial policies are under a significant influence of the Capital Group but are not controlled by the Group. It is assumed that a significant influence takes place when the Capital Group holds between 20% and 50% of voting rights in another entity. Joint ventures are entities over which the Capital Group exercises joint control and the control split is defined in an agreement while the strategic operating and financial decisions require a unanimous consent of the parties involved.
Investments in associates and joint ventures are settled in consolidated financial statements using the equity method (investments settled with equity method), and are initially recognized at purchase price. Investments of the Capital Group include the company's goodwill recognised at the purchase less the value of cumulated losses arising from impairment. The consolidated financial statements of the Capital Group present the Capital Group's share in profits and losses and changes in the equity of associates settled with the equity method (after standardizing applicable accounting principles), as of the commencement of significant impact or joint control until their expiry. If the Capital Group's share in losses exceeds the value of shares in an associate or joint venture, the balance sheet value (taking into account long-term investments) is reduced to zero. Then recognition of any additional losses is discontinued except for losses resulting from adoption by the Capital Group of legal or constructive obligations or from payment made on behalf of an associate or joint venture.

Consolidation procedures
The following consolidation procedures are adopted when producing consolidated financial statements:
- exclusion, as at the purchase day, of the book value of the investment of parent company in each subsidiary and the equity part of subsidiaries which reflects the share of parent company,
- specification of non-controlling interests in subsidiaries' equity and In the income statement of consolidated subsidiaries for a given reporting period
- exclusion of intra Capital Group settlements,
- exclusion of all non-realised profits generated on transactions within the Capital Group,
- exclusion of non-realised losses resulting from transactions within the Capital Group yet only when there are no indicators of impairment,
- exclusion of revenues and costs related to transactions within the Capital Group.

Financial statements of all Capital Group entities have been produced for the same reporting period as the financial statements of the parent company. Single financial statements of the Capital Group companies produced as per the Accounting Act have been adjusted to the consistent accounting principles applied by the Capital Group.

8.2 Foreign currencies

Transactions in foreign currencies
Transactions in foreign currencies on the transaction execution day are recognised in the functional currency of the parent company using the sell or buy fx rate as at the trans action day.

Cash items under assets and liabilities denominated in foreign currency are calculated at the end of the reporting period based on the average NBP rate applicable as at the balance sheet day. Exchange differences arising from balance sheet valuation of assets and cash liabilities represent the difference between valuation at amortising cost in the functional currency at the beginning of the reporting period adjusted by accrued interest and payments made over the reporting period and the value at amortised cost in a foreign currency calculated at NBP average rate applicable as at the balance sheet day.

The exchange differences from conversion are recognised as profit or loss of the current period. Non-cash items measured at historic cost in a foreign currency are calculated by the Capital Group based on the fx rate applicable as at the transaction day.

8.3 Financial instruments

The Capital Group divides non-derivative financial instruments into the following categories: financial assets at fair value through profit and loss account, financial assets held to maturity, loans and receivables and financial assets held for sale.

The Capital Group discloses non-derivate financial liabilities as other financial liabilities.

Non-derivate financial instruments
Loans, receivables and deposits are recognised at the origination date. All other financial assets (including assets at fair value through profit and loss account) are recognised at the transaction day when the Capital Group becomes a party to mutual obligation underlying a given financial instrument.

The Capital Group ceases to recognise financial assets upon expiry of rights arising from the agreement on receiving cash flows from such an asset or upon the rights to receive cash flows from a financial asset being transferred in a transaction assigning basically all significant risks and benefits related to the ownership. Each share in transferred financial asset which is created or continues to be held by the Capital Group is treated as a separate asset or liability.

Assets and liabilities are offset and recognized in the statement of financial situation in net amount, only if the Capital Group holds a valid legal title to offset given assets and liabilities or intends to settle a given transaction in net amount of the assets and liabilities subject to offsetting or intends at the same time to realise the financial assets subject to offset and to settle the liabilities.

Financial assets at fair value through profit and loss account
Financial assets are classified as investment at the fair value through profit and loss account if they are earmarked for trade or classified as measured at fair value through profit and loss account at the initial recognition.

Financial assets measured at fair value through profit and loss account are initially recognised at fair value. Transactional costs related to the investment are recognised as a profit or loss of the current period on the origination date. After the initial recognition, all profits and losses related to those investments are recognized as profit or loss of the current period.

Financial assets held to maturity
Financial assets held to maturity are non-derivative financial instruments with fixed or determinable payments the Capital Group intends and is able to hold until their maturity, with the following exceptions:
- financial assets recognized at fair value through profit and loss account at the initial recognition;
- financial assets held for sale;
- financial assets meeting the criteria of being qualified to the category of loans and receivables.

Financial assets held to maturity are initially recognised at fair value increased by directly attributable transaction costs. Later the financial assets are measured at amortised cost using effective interest rate method less potential impairment charges.

Sale or reclassification of more than non-significant amount of financial assets held to maturity at a different date than close to the maturity date, results in the Capital Group's reclassification of all investments held to maturity as the investment held for sale and the Capital Group cannot recognise purchased investments as financial instruments held to maturity until the end of the accounting year and for the next two accounting years.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at the fair value increased by directly attributable transaction costs. Valuation of loans and receivables at a later date is made based on amortised cost with the use of effective interest rate method less any potential impairment charges.

Loans and receivables include, among others, the following: receivables arising from signed leasing and factoring agreements, granted loans, trade debtors, other debtors, cash and cash equivalents.

Receivables are measured at due payment amount less impairment charges. Impairment charges are applied when recovery of the overall amount of receivables is no longer likely. The amount of impairment charges for receivables are taken to other operating costs. The Capital Group makes impairment charges based on the analysis of credit risk of a given debtor. The capital Group makes impairment charges for risk-bearing receivables. If the reason for making impairment charges ceases to exist, the equivalent of such a charge is taken in full or in a relevant part to other operating costs.

Cash and cash equivalents incorporate cash at hand and bank deposits with the initial maturity term of up to three months. The balance of cash and equivalents recognised in the cash flow statement incorporate the above mentioned cash and equivalents, additionally less unpaid overdrafts representing an integral part of the Capital Group cash management system.

Financial assets held for sale
Financial assets held for sale incorporate non-derivative financial assets earmarked as held for sale and non-classified in any of the previous categories.

Financial assets held for sale are initially recognised at fair value increased by directly attributable transactional costs. After the initial recognition, financial assets held for sale are measured at fair value and the implications arising from changes in the fair value, other than impairment charges and exchange differences re. capital instruments held for sale, are recognized in other comprehensive income and recognized as revaluation reserve. As at the day of deleting investment from accounting books, the cumulated profits or losses previously recognised in other comprehensive income are transferred to the profit or loss of current period.

Non-derivative financial liabilities
Financial liabilities, including liabilities measured at fair value through profit and loss account, are recognised at the day of executing a transaction where the Capital Group becomes a party to an agreement obliging it to issue a financial instrument.

Financial liabilities are deleted from the Capital Group's books when they are repaid, cancelled or expire.

The non-derivate financial liabilities of the Capital Group are: loans, borrowings and other debt instruments, trade creditors and other liabilities.

Such type of financial liabilities are initially recognised at fair value increased by directly attributable transactional costs. After the initial recognition, those liabilities are measured at amortised cost using the effective interest rate method.

Assets and liabilities are offset and recognized in the statement of financial situation in net amount, only if the Capital Group holds a valid legal title to offset given assets and liabilities or intends to settle a given transaction in net amount of the assets and liabilities subject to offsetting or intends at the same time to realise the financial assets subject to offset and to settle the liabilities.

Equity
Equity is recognised in accounting books and presented in financial statements with a break down into equity types and as per the principles stipulated by the law. The equity of Capital Group incorporates the following: share capital, reserve capital, defined benefit plan revaluation reserve and retained profits.

8.4 Lease agreements

Lease agreements are classified as financial lease if all the risks and rewards of ownership of the leased asset are substantially transferred to the lessee. All other leasing agreements are classified as operating lease.

Financial lease agreements with the Capital Group as a lessor

Receivables arising from lease agreements are initially recognized at the equivalent of net lease investment defined as current value of minimum lease payments and residual value of the leased asset. Current value is determined by discounting the minimum due lease payments and the residual value of leased asset with the use of interest rate of lease agreement.

Interest rate of lease agreement is a rate discounting, as at the day of signing the lease agreement, the total minimum due lease payments and unguaranteed residual value of leased asset against the fair value of leased asset increased by direct costs incurred in relation to signing the lease agreement.

Revenues from lease agreements are recognised in a manner reflecting the fixed periodic yield of net lease investment. Lease payments from lease agreements are recognized as profit or loss of current period in the amount corresponding with the yield of net lease investment while the remaining part of payments decreases the receivables from lease agreements.

At the initial recognition of lease receivables, the Capital Group ceases to recognize the leased asset. The difference between the lease receivables and the leased asset is recognized in the profit or loss of current period.

After the initial recognition, receivables under lease agreements are recognised and measured in the same way as financial instruments classified to the category of loans and receivables.

If a leased asset is taken over as a result of termination or discontinuation of a lease agreement and final settlement with the lessee before the contractual date, the leased asset represents collateral for the non-received receivables due under the lease agreement and is recognized off balance sheet. When a decision is made to settle the lease agreement and earmark the leased asset for sale within a year, the Capital Group recognizes the leased asset as an asset held for sale.

Operating lease agreements with the Capital Group as a lessor
In case of operating lease agreements, the Capital Group continues to recognise the assets subject to lease agreements as per the nature of those assets.

Income on operating lease are recognised with a linear method throughout the contractual period. Direct costs incurred in relation to signing a lease agreement increase the value of leased assets and are taken to costs using a linear method throughout the contractual period.

Any potential benefits of the lessee in relation to signing or extending the lease agreement are recognised as reduction of overall revenues from lease agreement and settled on a linear basis throughout the contractual period.

Lease agreements with the Capital Group as a lessee
Assets purchased by way of financial lease are initially recognised at fair value or current value of minimum lease payments, whichever is lower, and then reduced with depreciation and impairment charges.

Non-financial lease agreements are treated as operating lease and are not recognised in the financial statement.

8.5 Tangible fixed assets

Recognition and valuation
Tangible fixed assets are recognised in books at purchase price or production cost less depreciation and impairment charges.

The purchase price includes the purchase price and costs directly related to the purchase and adjustment of the asset for use along with the costs of transportation, costs of loading, unloading, storage costs and the costs of direct remuneration. The purchase price is reduced with any discounts, rebates or similar reductions. Rebates, discounts and similar reductions and recoveries decrease the purchase price of those assets

Production costs of fixed assets and their components cover total costs incurred over their construction, assembly, adaptation and upgrading incurred by the day a given asset was taken for use (or by the balance sheet day if the asset has not been handed over for use yet). The production costs also include, if required, preliminary estimation of costs of disassembly and deletion of tangible fixed assets and restoration to the original condition. The purchased software necessary for a given device is activated as part of the device.

Costs of external funding related to the purchase or production of given assets increase the purchase price or production costs of those assets.

If a given asset is composed of separate and significant components of various useful lives those components are treated as separate components of assets.

Profit and loss from disposal of tangible fixed asset are defined based on the comparison of revenues from disposal against the balance sheet value of disposed assets and are recognized in net amount as a profit or loss of the current period under the item other revenues or operating costs. When the sale refers to previously revaluated assets, the remaining amount is transferred to retained profits.

Subsequent expenditure

Subsequent expenditures for replaced components of fixed assets which can be reliably estimated and it is likely that the Capital Group will generate economic benefits related to replaced components of fixed assets are activated. The balance sheet value of removed components of tangible fixed assets is excluded from the books. Expenditure for current maintenance of tangible fixed assets components are recognised as profit or loss of current period at the origination date.

Depreciation
Depreciation is made against values subject to depreciation which represents the purchase price or the production price of a given asset, less its residual value. Depreciation is charged as of the next month following the acceptance of assets for use.

Depreciation cost is recognised as profit or loss of the current period using the linear method with respect to the useful life of given tangible fixed asset estimated by the Capital Group which reflects best the manner of realizing future economic benefits arising from using a given asset. Assets leased under lease agreement or other agreement of similar nature are depreciated using shorter of the two periods: lease agreement or useful life unless the Capital Group is certain that it will obtain the ownership title prior to the lapse of lease period. Land is not subject to depreciation.

The following depreciation rates are used by the Capital Group for individual categories of tangible fixed assets:

buildings and constructions (investments in third-party tangible fixed assets)	1.5% - 17%
machines and equipment	3.34% - 63.16%
means of transportation	7% - 33.33%
other tangible fixed assets	8.28% - 25%

The adequacy of applied useful lives, depreciation methods and residual value of tangible fixed assets is verified at each balance sheet day and adjusted if necessary.

8.6 Intangible assets

Intangible assets
Intangible assets purchased by the Capital Group with a given useful life are recognised based on their purchase price less amortization charges and impairment charges.

Subsequent expenditures

Subsequent expenditure for intangible assets are activated only if they increase future economic benefits from a given asset. Other expenditures, including expenditure on in-hose developed trademark, goodwill and brand, are recognised as profit or loss of current period as at the origination date.

Amortisation

Amortisation charges are applied with respect to assets purchase price or its equivalent value less its residual value. Amortisation charge is applied as of the next month after the assets were taken for use.

The amortisation cost is recognised as profit or loss of current period using the linear method with respect to the useful life of given intangible asset specified by the Capital Group, other than the company's goodwill, as of identifying its adaptation for use which bests reflects the manner of realising future economic benefits arising from the use of a given asset.

The following amortisation rates are used by the Capital Group for individual categories of intangible assets:

Software	10% - 50%
Relations with customers	10%

The adequacy of applied useful lives, amortisation methods and residual value of intangible assets is verified at each balance sheet day and adjusted if necessary.

8.7 Trade and other receivables

Trade and other receivables are initially recognised at fair value. After the initial recognition, they are measured at amortised cost using the effective interest rate less the impairment charges.

In case of receivables whose maturity does not exceed 12 months as of the balance sheet day, if the difference between the value at amortised cost and the value at due payment is not significant, they are measured at the due payment value less impairment charges.

8.8 Inventories

Inventories are measured at purchase price or production cost not exceeding the achievable net sale price. The level of inventories is measured based on the First-In First-Out method. The purchase price covers costs directly attributable to the purchase and adaptation for use or introduction to trade. Asset's adaptation for use. In case of ready goods and production in progress, costs include a relevant part of indirect production costs calculated assuming a regular use of production capacity.

Net realisable value is the difference between estimated sale price in the ordinary course of business and the costs of completion and selling expenses.

8.9 CO_2 emission allowances / energy certificates

CO_2 emission allowances

Emission allowances granted free of charge
Emission allowances granted free of charge (annual allocation) are recognised as inventories. Allowances granted free of charge are recognized and presented separately under inventories with correspondence to grant as per IAS 20 at fair value set on the registration day.

If the allowances for a given period are not registered in the Registry, the Capital Group recognizes as inventories, in correspondence with future periods revenues, the expected attributable free of charge allowances to CO_2 emission estimated as the product of expected allowances for a given year and fair value of allowances at the balance sheet date.

The fees for granted allowances and the registration fee do not represent the value of allowances and are settled in time. Paid fees are taken to the cost of sale pro rata to their use in a given settlement period.

Purchased emission allowances

Purchased emission allowances are recognised at purchase price.

Allocation/Cancellation
Air pollution provisions are recognised as costs od goods sold (cogs) and measured in the following manner:

- if the allowances held by the Capital Group are sufficient to cover its emission-related obligation: as a product of allowances to be cancelled as a result of emissions made and single cost of emission allowance held by the Capital Group and attributable as at the balance sheet day. Consolidated cost of allowances for estimated emission is calculated with FIFO method.
- if the Capital Group does not hold allowances sufficient to cover its emission-related obligation: as a product of allowances held by the Capital Group and attributable as at the balance sheet day and single cost of emission allowance increased by fair value of missing emission allowances. are recognised at purchase price.

Subsidy related to settled allowances is recognized on a regular basis in particular reporting periods to ensure correspondence with incurred costs to be offset by the subsidy. As a result, the cost of provision raising in the profit and loss account is offset by subsidy reduction (pro rata to emission) to the estimated level of annual emission.

Granted/purchased emission allowances are taken to the provision book value as their settlement at the time of surrendering emission allowance for the previous year in a relevant registry.

Energy certificates of origin
Energy certificates of origin cover property rights resulting from certificates of origin for energy generated from renewable sources and for energy generated from cogeneration sources (purchased, generated or received).

Property rights resulting from certificate of origin as at the initial recognition (as inventories) are measured as product of the number of rights and single market price of property right resulting from certificate of origin in the generation month.

8.10 Impairment charges

Financial assets (including receivables)
At the end of each reporting period the Capital Group assesses if there is objective evidence for impairment of financial assets not measured at fair value through profit and loss account.
Impairment of financial asset is assumed when after its initial recognition there are objective indicators for occurrence of an event generating impairment which may have a negative, reliably estimated impact on the value of future cash flows related to a given asset.

Objective indicators for impairment of financial assets are:

- Debtor's significant financial difficulties,
- Failure to pay or delays in debt repayment by debtor,
- Debtor's debt restructuring for which the Capital Group gave its consent for economic or legal reasons arising from financial difficulties of the debtor and such consent would not be granted by the Capital Group in other circumstances,
- Circumstances indicating high likelihood of the debtor's or issuer's bankruptcy,
- Disappearance of an active market for a given financial asset,
- Data indicating possible to measure decline in estimated future cash flows related to a given group of financial assets.

Capital Group assesses the indicators evidencing the impairment of loans and receivables or investment held to maturity on a single asset level.

Given the nature of lease receivables portfolio the Capital Group does not perform collective assessment of credit risk.

Impairment of financial assets measured at amortised cost is estimated as a difference between their balance sheet value (value in the statement of financial situation) and current value of estimated future cash flows discounted with the use of initial effective interest rate. All losses are recognized as loss of current period and reduce the balance sheet value of receivables and the Capital Group continues to charge interest on updated assets. If further circumstances indicate that the reasons for impairment charges cease to exist, reversed impairment charge is recognized as profit of current period.

Impairment of financial assets held for sale are recognised by transferring to profit or loss of current period the cumulated loss, previously recognised in other comprehensive income as revaluation reserve and recognised as valuation provision at the fair value in capital. The value of cumulated loss referred to above is calculated as difference between the purchase price less amortisation and repayment of principal instalments and the fair value less the impairment loss recognized previously as a loss of current period. Changes in impairment related to time value of money are recognised as interest income.

Non-financial assets
Balance sheet value of non-financial assets other than inventories and deferred tax assets is assessed at the end of each reporting period to examine whether there are any indicators for their impairment. If so, the Capital Group estimates the recoverable amount of individual assets or cash generating entities. Recoverable amount with respect to the company's goodwill, intangible assets with indefinite useful life and intangible assets which are not useful yet is estimated each year at the same time.

Recoverable amount is defined as the higher of assets' net value from sale and their value in use. When estimating the value in use future cash flows are discounted with interest rate before taxation which reflects the current market time value of money and risk factors typical for a given asset.
Capital Group assesses impairment of the company's goodwill by grouping the cash generating entities so that each organisational segment, not higher than the separated operational segment, affected with the assessment reflects the lowest organizational level where the Capital Group monitors the company's goodwill for internal reasons.

Impairment charges are recognised when the asset's carrying amount exceeds its recoverable amount. Impairment charges are recognised as profit or loss of current period.

Impairment charges recognised in previous periods are assessed at the end of each reporting period to examine whether there are any indicators of impairment or its total reversion. An impairment charge is reversed in case of growth in the estimated recoverable value. An impairment charge is reversed only to the initial value of asset less amortization that would be recognized should the impairment charge not be recognised.

8.11 Employee benefits

Defined contribution plan
The Capital Group is obliged, as per the applicable law, to collect and make payments in relation to employees' retirement benefits. Those benefits, as per IAS 19, make a defined contribution plan (governmental programme). Therefore, the obligation of the Capital Group for each period is estimated based on the level of payments to be contributed for a given year and recognized as a cost of employee benefits taken to the profit and loss account for the period in which the employees rendered the service.

Defined benefits plan
Capital Group's obligation arising from the defined benefit plan is calculated separately for each plan by estimating the current value of future benefits earned in current and previous periods. Costs of current employment are recognised in the profit and loss account as remuneration costs. The interest on plan obligations are recognised in the profit and loss account as financial costs. Revaluated obligation is recognized under other comprehensive income (refers to retirement severance pay, disability pension severance pay and death-in–service severance pay).

Retirement severance pay (defined benefits plan)
Under the applicable law, the Capital Group is obliged to make retirement severance pays in the amount stipulated in the Labour Code applicable as at the payment date.

The related undertaking of the Capital Group is calculated by estimating future remuneration of the employee in the period when she/he reaches the retirement age and by estimating the future retirement severance pay. The severance pays are discounted with the current value. The discount rate is determined by reference to market yields on government bonds at the end of reporting period. Obligation related to retirement severance pay is recognised pro rata to the projected period of service of a given employee.

The calculation is made by a qualified actuary using the projected unit credit method. Staff rotation is estimated based on historic data and projected level of employment in the future.

Disability retirement severance pay (defined benefits plan)
Employees terminating work as a result of disability retirement are entitled to disability retirement severance pays in a cash form whose value depends on the length of service and remuneration of a given employee. Actuarial methods are applied to estimate the level of related obligations.

Death in service benefits (defined benefits plan)
Those benefits are estimated based on actuarial methods. Provisions for death in service benefits have been calculated based on the following assumptions:

- Calculations are denominated in Polish zloty,
- Provisions are calculated based on assumed amounts to be paid by the Capital Group pursuant to the Labour Code,
- The severance is calculated as the product of the following: projected base level for death-in-service benefit as per the Labour Code, projected growth in the base level by the time of receiving the benefit, ratio depending on the period of service in the Capital Group at the time of receiving the benefit and the likelihood of employee's death in a given year of employment,
- Calculated amounts are discounted as at the balance sheet day,
- The financial discount rate is determined by reference to market yields on T-bonds whose currency and maturity dates are consistent with the currency and estimated date of the obligation being fulfilled.

Other long-term employees' benefits
Capital Group offers to its employee jubilee benefits depending on the length of service in the Capital Group and on the level of remuneration of a given employee as at the day of becoming entitled to such a benefit. These benefit obligations are calculated with the use of actuarial method. Benefits are measured with the use of projected unit credit method.

Actuarial profits and losses from obligation valuation are recognised in the profit and loss account.

Short-term employee benefits
Obligations arising from short-term employee benefits are measured without a discount. Obligation related to short-term employee benefits are calculated without a discount and taken to costs during the benefit payment period.

The Capital Group recognises the obligation as costs of projected payments for employees in the form of short-term cash bonuses or profit distribution plans if the Capital Group has a legal or constructive obligation to make such payments based on services rendered by the employees in the past and a reliable estimate of the obligation can be made.

8.12 Provisions

Provisions are recognised when the Capital Group has a present legal or constructive obligation (arising from future events) that can be reliably estimated and it is likely that fulfilment of that obligation will entail outflow of economic benefits. Provisions are set by discounting expected future cash flows with a rate before taxation which reflects current market estimates of time value of money and risk related to a given obligation. Discount settlement is recognised as a financial cost.

8.13 Interest bearing loans and borrowings

At initial recognition bank loans, borrowings and debt securities are presented at fair value less costs related to obtaining a given loan or borrowing.

After the initial recognition the loans, borrowings and debt securities are measured at amortised cost with the use of effective interest rate.

8.14 Trade creditors and other creditors

Trade creditors and other creditors are initially recognised at fair value. After the initial recognition they are presented at amortised cost with the use of effective interest rate.

In case of payables with maturity not exceeding 12 months as of the balance sheet day, when the difference between the value at amortised cost and value at due payment is not significant, those payables are measured at the due payment.

8.15 Revenues

Sale of finished goods/products
Revenues from the sale of finished foods/ products in the ordinary course of business are measured at fair value of the received or due payment, less the value of returns, discounts and rebates. Revenues are disclosed when there is convincing evidence, usually in the form of executed sales agreement, that the entire risk and benefits have been transferred onto the buyer, there is a high likelihood of receiving payment, incurred costs and likelihood of goods being returned can be reliably estimated, there is no permanent involvement in goods management and the amount of revenues may be reliably estimated. If rebates are likely and their amount can be reliably estimated, then the rebate is recognized as reduction of sale revenues as at the recognition date.

Revenues from sale of heat
Heat is sold based on signed agreements on heat sale with institutional customers.

Customers pay fixed fees for heat as per the tariff approved by the president of Energy Regulatory Office. Variable fees, i.e. heat transfer and heat are charged on a cyclical basis (rolling) based on a reading on the last day of given period as per the rates specified in the approved tariff.

Revenues from sale of electric energy
Sale of electric energy is conducted based on signed sale agreements with business customers. Price is set individually by the counterparties or in line with the supply and demand on the Polish Power Exchange (Towarowa Giełda Energii S.A).

Sale of balancing energy supplied to the balancing market is made based on reports from the sale balancing system in the National Power System (KSE). Settlements are made on a decade basis.

Rendered services
Revenues from rendered services are recognised based on progress in delivery if the outcome of the transaction can be estimated in a reliable way.

Percentage progress of delivery is determined as the ratio of costs incurred as at a given day to the total estimated costs of the transaction. If the outcome of a service transaction cannot be estimated in a reliable way then revenues generated on the contract are recognized only up to the level of incurred costs the Capital Group expects to recover.

Revenues from financial lease agreements and loan agreements
Interest income from financial lease agreements and loan agreements are settled with the use of effective interest rate. The income is presented in the profit and loss account under the income item.

Revenues from operating lease agreements and rental agreements

Operational lease and rent payments are recognised on a linear basis over the contractual period as a profit or loss of the current period under the revenues item. Any special promotional offers are recognised as an integral part of the total lease costs over the lease period.

Sale of emission allowances
In the case of sale of allowances (granted or purchased), the revenues are recognised as revenues from sale. In the case of sale of allowances (granted or purchased) the cost of sale is recognised at the purchase price taken to the cost of sale. Additionally, in the case of sale of granted allowances, a relevant part of subsidy recognised in the revenues of future periods is settled.

Energy certificates of origin
Property rights resulting from certificates of origin at the initial recognition (as inventories) are measured as product of the number of generated rights and a single market price of property right resulting from certificate of origin in the generation month.
Double entry of granted property rights arising from the certificates of origin is made by recognizing revenues from sale of energy. The difference between sale price of certificates of origin and the value recognised based on market price in the generation month is recognized under revenues from sale of energy.

8.16 Net financial revenues (costs)

Financial revenues (costs) cover exchange differentials, dividend, interest on non-financial receivables, interest on loans and borrowings and interest on cash.

Interest income is recognised in profit and loss account with accrual principle with the use of effective interest rate. Dividend income is recognised in the profit and loss account when the Capital Group becomes entitled to the dividend.

8.17 Income tax

Income tax is composed of current tax and deferred tax. Current and deferred tax is recognised as profit or loss of current period except when it refers to consolidation of entities or items disclosed directly in equity or other comprehensive income.

Current tax represents the expected amount of liabilities or receivables arising from the income tax imposed on taxable income for a given year determined with the use of tax rates applicable as per the law or actual rates as at the reporting date and tax adjustments for previous years.

Deferred tax is recognised in relation to temporary differences between the balance sheet value of assets and liabilities and their value determined for tax purposes. Deferred tax is measured with the use of tax rates projected to be applicable in case of reversal of temporary differences based on legal or actual tax regulations applicable by the reporting day. Deferred income tax assets and deferred income tax provisions are offset if the Capital Group, at the unit level, holds enforceable legal title for offsetting current tax assets and liabilities provided the deferred income tax assets and provisions refer to the income tax imposed by the same tax authority, on the same tax payer or various payers who intend to settle the income tax receivables and liabilities in net amounts or simultaneously realize the receivables and settle the liability.
Deferred tax assets related to unsettled tax loss and negative temporary differences are recognized up to the likely amount of taxable income to be generated enabling their realisation. Deferred tax assets are re-measured at each reporting day and reduced to the extent the related income tax benefits are not likely to be realised.

8.18 Costs by type

The costs are likely reduction in economic benefits over the reporting period whose value has been reliably determined in the form of reduction in assets value or increase in liabilities and provisions leading to equity decrease or growth in equity shortage in other way than by withdrawing funds by the owners.

In its consolidated financial statement of comprehensive income the Capital Group presents the following costs by type:
- Amortisation/depreciation,
- Consumption of materials and energy,
- Third party services,
- Taxes and fees,
- Remuneration and employee benefits,
- Other costs by type.
- Value of goods and materials sold.

9. Fair value measurement

In many cases, the adopted accounting and disclosure principles require the Capital Group to measure the fair value of both financial and non-financial assets and liabilities. The fair values are measured and recognised with the use of use of methods presented below. If necessary, further information about the assumptions for measuring fair value has been presented in the explanatory notes concerning individual assets and liabilities.

Non-derivative financial assets and liabilities
Fair value is estimated based on current value of future cash flows from repayment of principal amount and interest discounted with interest rate applicable at the end of reporting period. Short-term assets and liabilities and assets and liabilities for which interest rates are updated with changed base rates are not discounted as their book value is similar to the fair value. Fair value is estimated only for the purpose of disclosure.

Trade debtors/creditors and other
It is assumed that the nominal value of debtors/creditors due in less than a year reflects their fair value. Debtors/creditors with longer maturity dates are discounted for the purpose of estimating their fair value.

10.Financial risk management

The Capital Group is exposed to the following types of risk related to the use of financial instruments:
- Credit risk,
- Liquidity risk,
- Fx risk,
- Interest rate risk.

Information about the Capital Group's exposure to a given risk, objectives, principles and procedures of risk measurement and management adopted by the Capital Group along with information of capital management by the Capital Group is presented in Note 36.

11. Company Goodwill

On 15 April 2015, Elektrociepłownia „Będzin" S.A. took over control over Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A by way of the following transactions.
The core business activity of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. is financial-services activity in the form of renting, leasing and providing access to fixed assets in another form.

Purchase price
Elektrociepłownia "Będzin" S.A. purchased 100% of shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. for PLN 49,600.32 with the following payment terms:
- PLN 44.29k by 31 March 2015,
- PLN 6,500.00k by 2 April 2015,
- PLN 5,000.00k by 13 April 2015,
- PLN 19,840.13k by 15 April 2015,
- PLN 4,960.03k by 20 April 2015,
- PLN 13,255.87k by 30 June 2018.

Based on the planned payment date of the last tranche, the overall fair value as at the purchase date was estimated at PLN 48,044.06k.

(as per the IFRS of the EU, in PLN k)

On 13 April 2015, to finance the purchase of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A shares, Elektrociepłownia "Będzin" S.A. issued bonds with the total nominal value of PLN 30,000.00 with a 3-year maturity term, bearing 6M WIBOR reference rate and a margin of 4.5pp. Bonds are to be redeemed by 10 April 2019.

With reference to the current report no. 17/2015 dated 13 April 2015, in which Elektrociepłownia "Będzin" S.A. (the Company, the Issuer) informed about the issue and the Terms and Conditions of Issuing A-Series Bonds, the Company's Management Board informs that after receiving written statements on the consent of all Bondholders to change the Terms and Conditions of Issuing A-Series Bonds and after obtaining all corporate approvals, the Issuer made amendments to the Terms and Conditions of Issuing A-Series Bonds issued by Elektrociepłownia "Będzin" S.A. in such a way that the issuing period for the foregoing bonds was extended by 1 year, and their redemption will take place on 10 April 2019. Other Terms and Conditions of Issuing A-Series Bonds remain unchanged.

Goodwill	**As at the take over day**
Purchase price	48 044
Fair value of identifiable net assets	(46 107)
Goodwill	**1 937**

According to the Management Board of Capital Group, the company's recognized goodwill results mostly from its experience and specialist knowledge in financial sector, its reputation, processes and business projects in the financial area and access to markets.

At the end of current period, the Capital Group performed goodwill impairment testing for the financial segment. Impairment testing of goodwill on the balance sheet as at 31 December 2017 was performed against net assets increased by the goodwill on the level of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. The recoverable amount of goodwill was measured based on its value in use.

Estimated projections for future cash flows were produced taking into account detailed financial projections for 2018-2026. Terminal value was estimated through extrapolation of projected free cash flows outside the plan using each time adequate growth rate. Weighted average cost of capital of 10.70% was applied. The value in use of the segment was PLN 56.570k at the testing date, i.e. 31 December 2017.

Estimated recoverable value did not indicate the need to recognise impairment charges.

12.Business segments reporting

The Capital Group presents financial information with a break down into two segments: energy segment covering production of electricity and heat both in conventional sources and through firing and co-firing of biomass and the financial-services segment covering renting, leasing or providing access to fixed assets in another form.

Currently, this division matches the internal reporting framework of the Capital Group arising from the management structure. It is subject to a regular control exercised by the parent company's Management Board and is used for taking decisions about allocation of resources and to assess the performance of segments.

The Capital Group pursues its business objectives within two key reporting segments distinguished based on different management strategies (production, financial) assumed for each segment.

There is no geographic diversification of the Capital Group's activity and the entire business is conducted in Poland thus no geographical regions have been specified.

(as per the IFRS of the EU, in PLN k)

In 2017, in the energy segment over 87% of revenues is generated on sale to one external counterparty (Capital Group). In 2016, sale to that counterparty accounted for 75% of revenues.

Operational segments for period 01.01.2017 - 31.12.2017	Energy segment	Financial segment	Total
Revenues from external customers	173 651	31 106	204 757
Other operational revenues	4 137	3 311	7 448
Segment total revenues	**177 788**	**34 417**	**212 205**
Amortisation	(13 920)	(5 441)	(19 361)
Consumption of materials and energy	(89 137)	(189)	(89 326)
Third party services	(21 810)	(1 475)	(23 285)
Taxes and fees	(4 407)	(1 334)	(5 741)
Remuneration and employee benefits	(22 878)	(5 722)	(28 600)
Other costs by type	(523)	(1 354)	(1 877)
Value of sold goods and materials	(2 095)	-	(2 095)
Other operating costs	(1 104)	(981)	(2 085)
Operational activity bottom line	**21 914**	**17 921**	**39 835**
Financial revenues	596	996	1 592
Financial expenses	(4 172)	(18 010)	(22 182)
Gross profit	**18 338**	**907**	**19 245**
Income tax	(4 073)	(826)	(4 899)
Net profit	**14 265**	**81**	**14 346**

Assets and liabilities of segments as at 31.12.2017	Energy segment	Financial segment	Total
Segment assets	283 583	426 791	710 374
Total assets	**283 583**	**426 791**	**710 374**
Segment liabilties	119 693	420 987	540 680
Total equity	163 890	5 804	169 694
Total liabilities and equity	**283 583**	**426 791**	**710 374**

From 1 January to 31 December 2017 capex for tangible fixed assets in the energy segment totalled PLN 39,268k and PLN 191k in the financial segment.

(as per the IFRS of the EU, in PLN k)

Operational segments for period 01.01.2016 - 31.12.2016	**Energy segment**	**Financial segment**	**Total**
Revenues from external customers	155 646	34 823	190 469
Other operational revenues	1 276	2 130	3 406
Segment total revenues	**156 922**	**36 953**	**193 875**
Amortisation	(11 060)	(5 593)	(16 653)
Consumption of materials and energy	(71 564)	(198)	(71 762)
Third party services	(15 803)	(1 708)	(17 511)
Taxes and fees	(4 208)	(1 175)	(5 383)
Remuneration and employee benefits	(21 547)	(5 621)	(27 168)
Other costs by type	(570)	(1 282)	(1 852)
Value of sold goods and materials	(4 322)	(79)	(4 401)
Other operating costs	(4 444)	(3 289)	(7 733)
Operational activity bottom line	**23 404**	**18 008**	**41 412**
Financial revenues	360	3 542	3 902
Financial expenses	(1 157)	(19 655)	(20 812)
Gross profit	**22 607**	**1 895**	**24 502**
Income tax	(4 305)	(738)	(5 043)
Net profit	**18 302**	**1 157**	**19 459**

Assets and liabilities of segments as at	**Energy**	**Financial**	**Total**
Aktywa segmentu	283 522	443 064	726 586
Aktywa ogółem	**283 522**	**443 064**	**726 586**
Zobowiązania segmentu	133 202	437 645	570 847
Kapitały ogółem	150 320	5 419	155 739
Zobowiązania i kapitały ogółem	**283 522**	**443 064**	**726 586**

From 1 January to 31 December 2016, capex for tangible fixed assets totalled PLN 60,749k and PLN 32k in the financial segment.

13. Revenues

Revenues	**01.01.2017 - 31.12.2017**	**01.01.2016 - 31.12.2016**
Revenues from sale of goods and materials	2 097	290
Revenues from sale of products and services	171 560	156 012
Lease revenues	28 060	28 151
Revenues from granted loans	2 656	4 235
Other revenues	384	1 781
Total revenues from sale	**204 757**	**190 469**

Lease revenues	**01.01.2017 - 31.12.2017**	**01.01.2016 - 31.12.2016**
Interest income – financial lease	22 264	22 088
Operational lease charge	5 796	6 063
Total leasing revenues	**28 060**	**28 151**

(as per the IFRS of the EU, in PLN k)

Revenues from granted loans	Za okres 01.01.2017 - 31.12.2017	Za okres 01.01.2016 - 31.12.2016
Interest income	2 656	4 235
Total revenues from granted loans	**2 656**	**4 235**

14. Other operating revenues

Other operating revenues	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Release of impairment charges for inventories	221	89
Adjustment of financial assets	2 939	1 885
Released provisions	2 953	-
Profit from sale and liquidation of tangible fixed assets	193	203
Compensation and contractual penalties received	101	346
Other revenues	1 041	883
Total other operating revenues	**7 448**	**3 406**

The revaluation of financial assets relates mainly to changes in the estimated risk of leasing receivables from one of the counterparties. The changed estimation is triggered by a significant improvement in the settlement of liabilities by this counterparty and a decrease in the balance and its coverage as well as the establishment of collateral.
The release of provisions concerns mainly a change in the projected costs of restoration regarding the obligations of the capital group resulting from the concession held.

15. Other operating costs

Other operating costs	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Adjustment of financial assets	(862)	(3 158)
Provision for future costs	(277)	-
Impairment charges for inventories	(199)	(616)
Impairment charges for receivables	(183)	(108)
Donations	(23)	(132)
Membership fees	(21)	(100)
Penalties and compensation paide	(117)	(37)
Provision for asset liquidation	-	(3 170)
Other costs	(403)	(412)
Other total operating costs	**(2 085)**	**(7 733)**

Costs related to adjustment of financial assets refer mostly to impairment charges for lease receivables.

Costs related to provision for asset liquidation refer mostly to the costs of restoring to the original condition as a result of liquidation of water boiler WP-120 no. 8 and 9 (licensed activity).

(as per the IFRS of the EU, in PLN k)

16. Financial revenues and costs

Financial revenues and costs	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Interest on bank accounts	327	156
Exchange differences	14	-
Revenues from interest on receivables other than receivables under lease agreements	446	622
Profit on disposal of finacial assets	213	-
Other financial revenues	592	3 124
Total financial revenues	1 592	3 902
Discount of actuarial provisions	(225)	(229)
Costs of interest on financial liabilities measured at amortised cost	(20 607)	(18 810)
Exchange differences	-	(325)
Other financial costs	(1 350)	(1 448)
Total financial costs	(22 182)	(20 812)
Net financial revenues/(costs) recognised in profit or loss of current period	**(20 590)**	**(16 910)**

Other financial revenues of PLN 3 124k refer mostly to the sale of shares in SGB Leasing sp. z o. o.

Interest income from assets and liabilities measured with effective interest rate method	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Revenues from interest on receivables other than receivables under lease agreements	446	622
Interest income on bank accounts	327	156
Interest income – financial lease	22 264	22 088
Interest income – granted loans	2 656	4 235
Costs of interest on financial liabilities measured at amortised cost	(20 607)	(18 810)
	5 086	**8 291**

17. Costs of employee benefits

Remuneration and employee benefits	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Remuneration	(24 690)	(22 489)
Social insurance (defined benefits plans)	(3 670)	(3 310)
Retirement severance pays (defined benefits plan)	139	39
Costs of jubilee benefits	850	(209)
Other employee benefits	(1 229)	(1 199)
Total remuneration and employee benefits	**(28 600)**	**(27 168)**

(as per the IFRS of the EU, in PLN k)

18. Income tax

Income tax recognized in profit or loss of current period	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Income tax (current part)		
Income tax for reporting period	(3 097)	(7 482)
Income tax (deferred part)		
Origination/reversal of temporary differences	(1 802)	2 439
Income tax	**(4 899)**	**(5 043)**

Income tax recognised in other comprehensive income	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Actuarial profits (losses) under defined benefits plans	92	(43)
Income tax recognised in other comprehensive income	**92**	**(43)**

Reconciliation of effective interest rate	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Net profit for reporting term	14 346	19 459
Income tax	4 899	5 043
Profit before tax	19 245	24 502
Tax based on applicable 19% tax rate	(3 657)	(4 655)
Tax effect of non-permanent income as per tax law	703	692
Tax effect of non-permanent costs as per tax law	(1 945)	(1 100)
Other (+/-)	-	20
Income tax	**(4 899)**	**(5 043)**
Effective tax rate	**25%**	**21%**

(as per the IFRS of the EU, in PLN k)

19. Tangible fixed assets

Gross value of tangible fixed assets	Land, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Gross value as at 01.01.2016	44 048	90 533	45 862	917	60 151	241 511
Purchase	26 388	86 272	256	261	59 676	172 853
Purchase in effect of acquisition of business units	-	-	-	-	-	-
Sale	-	(7)	(520)	-	-	(527)
Liquidation	-	(4)		(3)	-	(7)
Settlement	-	-	(1 755)	-	(113 809)	(115 564)
Gross value as at 31.12.2016	**70 436**	**176 794**	**43 843**	**1 175**	**6 018**	**298 266**
Gross value as at 01.01.2017	70 436	176 794	43 843	1 176	6 018	298 267
Purchase	3 315	21 706	229	279	29 291	54 820
Sale	-	-	(5 746)	-	-	(5 746)
Settlement/change of classification	-	-	-	-	(23 221)	(23 221)
Gross value as at 31.12.2017	**73 751**	**198 490**	**38 326**	**1 455**	**12 088**	**324 110**

Depreciation and impairment charges	Land, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Depreciation and impairment charges as at 01.01.2016	5 009	25 777	11 173	483	-	42 442
Depreciation	2 357	8 831	4 495	154	-	15 837
Sale		(8)	(440)		-	(448)
Liquidation		(3)		(3)	-	(6)
Settlement/change of classification	-	-	(13)	-	-	(13)
Depreciation and impairment charges as at 31.12.2016	**7 366**	**34 597**	**15 215**	**634**	-	**57 812**
Depreciation and impairment charges as at 01.01.2017	7 367	34 597	15 215	634	-	57 813
Depreciation	2 914	11 034	4 344	185	-	18 477
Sale	-	-	(3 815)	-	-	(3 815)
Settlement/change of classification	-	-	-	-	-	-
Depreciation and impairment charges as at 31.12.2017	**10 281**	**45 623**	**15 744**	**819**	-	**72 467**
Net value						
01.01.2016	39 039	64 756	34 689	434	60 151	199 069
31.12.2016	63 070	142 197	28 628	541	6 018	240 454
01.01.2017	63 070	142 197	28 628	541	6 018	240 454
31.12.2017	63 470	152 867	22 582	636	12 088	251 643

Impairment charges and subsequent reversal

As at 31 December 2017 and 31 December 2016 the Capital Group did not create any impairment charges. At the end of current period, the Capital Group conducted impairment testing for the energy segment following significant changes in market prices for electric energy.

Projected future cash flows were estimated based on detailed financial projections for 2017-2026. Terminal value was estimated through extrapolation of projected free cash flows outside the plan using each time adequate growth rate. Weighted average cost of capital of 7.8% was applied. The value in use of the segment was PLN 277 818k at the testing date, i.e. 31 December 2017.

The estimated recoverable value did not indicate the necessity to recognise impairment charges.

Leased tangible fixed assets
Under financial lease the Capital Group occupies property in Poznań at ul. Bolesława Krzywoustego 7. The balance sheet value of the property as at 31 December 2017 is PLN 3,906k. Additionally, under a financial lease agreement the Capital Group leases one passenger car – its balance sheet value as at 31 December 2017 was PLN 133k.

Collaterals
External financing granted to the Capital Group presented in Note 31 is secured with tangible fixed assets.

(as per the IFRS of the EU, in PLN k)

Key investments conducted over the reporting period:
- construction of flue gas desulphurization and denitrification facility of PLN 22 821k, including costs of external financing of PLN 514k (interest and fees),
- corrosion protection for insulated furnace chamber of boiler OP-140 no.7 of PLN 1 900k
- control panel for OP-140 boilers no. 6 and 7 - PLN 1180k
- modernization of water preparation station worth PLN 3,857k,
- modernization of the turbine generator excitation system worth PLN 305k,
- innovative technological installation ensuring optimal cooperation of a combined heat and power plant with a highly efficient heat accumulation system supported by intelligent decision making system on the sale market of electricity and heat worth PLN 193k,
- replacement of switching automation for 2R6 switching stations worth PLN 21k,
- purchase and replacement of air conditioners worth PLN 20k,
- technical and office equipment, computers, modernization of the tele-technical network, refitting the forklift truck with a heated cabin and others.

On 30 September 2014 Elektrociepłownia BĘDZIN Sp. z o. o. signed a contract on "Construction of flue gas desulphurization and denitrification facility in Elektrociepłowna BĘDZIN Sp. z o.o." with SBB Energy S.A.
The objective of the project was to adjust boilers OP-140 no. 6, OP-140 no. 7, WP-70 no. 5 installed in Elektrociepłownia BĘDZIN Sp. z o.o. to the emission standards for combustion plant (SO_2, NO_x gas and dust emission) applicable from 1 January 2016 as per the Directive 2010/75/ EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control).

As regards reduction of SO_2 emission, a highly efficient flue-gas desulfurization facility (SO_2 extraction above 98%) is to be constructed characterized by high reliability and requiring minimum capex to operate and maintain the installation. The circulating fluidized bed technology also provides for 99% reduction of HCL and SO3. The bag filter system in the desulfurization facility will enable significant reduction of dust emission.

As regards reduction of NO_x, a flue gas denitrification facility is to be constructed composed of: primary method enabling reduction of NOx emission in the boiler furnace chamber and secondary method, the so-called selective non-catalytic reduction (SNCR). Thanks to the technology, the target emission reduction will be: SO_2 - 130 mg/Nm^3; NO_x - 180 mg/Nm^3; dust - 15mg/Nm^3

Land in perpetua usufruct	Year ending on 31 December 2017	Year ending on 31 December 2016
Land in perpetual usufruct recognised in fixed assets as land	102	102
Land in perpetual usufruct recognised OBS	1 476	1 476
Total	**1 578**	**1 578**

(as per the IFRS of the EU, in PLN k)

20. Intangible assets

Gross value of intangibles	Patents, licences, software	Other intangible assets	Total
Gross value as at 01.01.2016	785	5 512	6 297
Acquisition	161	-	161
Sprzedaż	(2)	-	(2)
Gross value as at 31.12.2016	**944**	**5 512**	**6 456**
Gross value as at 01.01.2017	944	5 512	6 456
Acquisition	87	-	87
Gross value as at 31.12.2017	**1 031**	**5 512**	**6 543**

Amortisation and impairment charges	Patents, licences, software	Other intangible assets	Total
Amortisation and impairment charges as at 01.01.2016	244	413	657
Amortisation	264	551	815
Amortisation and impairment charges as at 31.12.2016	**508**	**964**	**1 472**
Amortisation and impairment charges as at 01.01.2017	508	964	1 472
Amortisation	333	551	884
Amortisation and impairment charges as at 31.12.2017	**841**	**1 515**	**2 356**
Net value			
01.01.2016	541	5 099	5 640
31.12.2016	436	4 548	4 984
01.01.2017	436	4 548	4 984
31.12.2017	190	3 997	4 187

Other intangible assets item discloses relations with customers of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.

Impairment charges and reversal
No impairment charges have been made by the Capital Group.

Intangible assets of indefinite useful life
There are no intangible assets of indefinite useful life in the Capital Group.

Collaterals
No collaterals have been established on intangible assets over the reporting period in the Capital Group.

(as per the IFRS of the EU, in PLN k)

21. Investments measured with equity method

Investments measured with equity method	31.12.2017	31.12.2016
Interests in entities measured with equity method	-	659

	31.12.2017	31.12.2016
Percentage share in PMF sp. z o. o. capital		40%
Fixed assets	-	2 330
Current assets	-	4 767
Long-term liabilities	-	(1 405)
Short-term liabilities	-	(4 045)
Net assets	-	1 647
Company's share in net assets	-	659
Elimination of unrealised profit (loss) on transaction with entity measured with equity method	-	-
Value of investment in entities measured with equity method	-	**659**

	31.12.2017	31.12.2016
Revenues	-	8 133
Profit on continued activity (100%)	-	311
Other comprehensive income (100%)	-	
Total income (100%)	-	311

Shares in ProMobil Fleet sp. z o. o. were sold on 13 December 2017. Profit from the sale was PLN 213k.

22. Deferred tax assets and provision for deferred income tax

Deferred tax assets and provision for deferred income tax	Assets		Liabilities		Net value	
	As at 31.12.2017	As at 31.12.2016	As at 31.12.2017	As at 31.12.2016	As at 31.12.2017	As at 31.12.2016
Tangible fixed assets	1 021	1 069	(13 552)	(12 509)	(12 531)	(11 440)
Intangible assets	-	-	(759)	(864)	(759)	(864)
Investments measured by equity method	-	-	-	-	-	-
Receivables under lease agreements	1 198	1 712	(246)	(61)	952	1 651
Granted loans	33	37	(477)	(433)	(444)	(396)
Other investments	-	-	-	-	-	-
Trade debtors and other debtors	-	-	(20)	(20)	(20)	(20)
Inventories	177	190	(415)	(426)	(238)	(236)
Liabilities under loans, credits and other debt securities	597	477	-	-	597	477
Employee benefits liabilities	2 657	2 383	-	-	2 657	2 383
Trade liabilities and other liabilities	235	107	-	247	235	354
Provisions	912	1 412	-	-	912	1 412
Tax losses brought forward to future reporting periods	1 114	1 114	-	-	1 114	1 114
Deferred tax assets and provision for deferred income tax	**7 944**	**8 501**	**(15 469)**	**(14 066)**	**(7 525)**	**(5 565)**
Compensation	(6 973)	(7 392)	6 973	7 392	-	-
Deferred tax assets and provision for deferred income tax recognized in financial statements	**971**	**1 109**	**(8 496)**	**(6 674)**	**(7 525)**	**(5 565)**

(as per the IFRS of the EU, in PLN k)

Change of temporary differences in the reporting period

Change of temporary differences in the reporting period	As at 01.01.2016	Change of temporary differences recognized as profit or loss in current period	temporary differences recognized in other comprehensive income	Change of temporary differences related to purchase of business units	As at 31.12.2016	Change of temporary differences recognized as profit or loss in current period	temporary differences recognized in other comprehensive income	Change of temporary differences related to purchase of business units	As at 31.12.2017
Tangible fixed assets	(11 832)	392	-		(11 440)	(1 091)	-	-	(12 531)
Intangible assets	(969)	105	-		(864)	105	-	-	(759)
Investments measured by equity method	(331)	331	-		-	-	-	-	-
Receivables under lease agreements	421	1 230	-		1 651	(699)	-	-	952
Granted loans	(472)	76	-		(396)	(48)	-	-	(444)
Trade debtors and other debtors	974	(994)	-		(20)		-	-	(20)
Inventories	(326)	90	-		(236)	(2)	-	-	(238)
Cash and cash equivalents	9	(9)	-		-	-	-	-	-
Liabilities under loans, credits and other debt securities	284	193	-		477	120	-	-	597
Employee benefits liabilities	2 013	413	(43)		2 383	182	92	-	2 657
Trade liabilities and other liabilities	218	136	-		354	(119)	-	-	235
Provisions	934	478	-		1 412	(500)	-	-	912
Tax losses brought forward to future reporting periods	1 114	-	-		1 114	-	-	-	1 114
	(7 963)	**2 441**	**(43)**	**-**	**(5 565)**	**(2 052)**	**92**	**-**	**(7 525)**

23. Receivables arising from lease agreements

The Capital Group offers to its Customers the option to finance investments through leasing. The main group of leased assets encompasses: rolling stock, means of road transportation (buses, trucks, tractors), machines and equipment, computers and IT equipment, as well as, industrial and commercial properties. Leasing agreements are signed for the term from 24 to 120 months, with the average term of agreement being 66 months.

The Capital Group offers agreements with fees set in domestic currency only. In principle, the Group makes agreements based on variable interest rates. Interest rates on agreements are most frequently represented by 1M or 3M WIBOR interbank deposit rate plus margin, at 2.5% to 4.5%.

When a leasing agreements expires or is terminated, the customer has the right to repurchase the leased asset at the residual price set upon making the agreement. Throughout the lease agreement term, the ownership title to the leased asset is held by the Capital Group and represents the main collateral for the repayment of leasing receivables. As a standard, lease agreements are secured with a blank bill of exchange. The additional collateral includes, inter alia, mortgage, registered pledge on fixed assets, repossession of fixed assets, transfer of receivables, etc. The leased asset is always insured with full insurance cover applicable to a particular type of asset.

Receivables from leasing agreements	31.12.2017	31.12.2016
Long-term receivables from leasing agreements	223 622	260 215
Short-term receivables from leasing agreements	113 412	90 444
	337 034	**350 659**

Net receivables from leasing agreements	31.12.2017	31.12.2016
Gross receivables from leasing agreements	338 120	354 024
Impairment charge on receivables from leasing agreements	(1 086)	(3 365)
	337 034	**350 659**

Gross receivables from leasing agreements	31.12.2017	31.12.2016
With no impairment identified	337 034	350 659
With impairment identified, including:	1 086	3 365
- portfolio measured individually	1 086	3 365
	338 120	**354 024**

(as per the IFRS of the EU, in PLN k)

Impairment charge on receivables from leasing agreements	31.12.2017	31.12.2016
Portfolio measured individually	(1 086)	(3 365)
	(1 086)	**(3 365)**

Mix of gross receivables from leasing agreements, by currencies (converted to PLN)	31.12.2017	31.12.2016
PLN	338 120	354 024
	338 120	**354 024**

Mix of gross receivables from leasing agreements, by maturity	31.12.2017	31.12.2016
up to 1 month	7 379	8 831
between 1 and 3 months	29 809	31 122
between 3 and 6 months	22 760	22 228
between 6 and 12 months	74 598	58 089
between 1 and 3 years	153 428	166 879
between 3 and 5 years	2 891	19 993
above 5 years	47 255	46 882
	338 120	**354 024**

Gross receivables from leasing agreements including unrealized revenues from leasing instalments	31.12.2017	31.12.2016
Gross receivables from leasing agreements	338 120	354 024
Unrealized financial revenues	51 879	57 104
	389 999	**411 128**

Past due receivables from leasing agreements	31.12.2017	31.12.2016
1-30 days	4 350	1 819
31-90 days	-	715
above 90 days	3 198	831
	7 548	**3 365**

As at 31 December 2017, the overdue receivables due to leasing contracts were represented mostly by receivables from one counterparty. The total exposure of the capital group to this counterparty is PLN 16,906k (including: overdue receivables - PLN 2,920k, leasing receivables - PLN 9,313k, receivables arising from loans granted - PLN 4,443k, promissory notes receivables - PLN 230k).
The exposure of the capital group is secured by:
- a mortgage on real estate,
- a registered pledge on the production line,
- assignment of receivables,

The value of pledged collateral exceeds the carrying value of the counterparty's exposure and the Group is the only significant creditor).
Negotiations are currently underway to repay the debt balance.
Overdue receivables under leasing agreements totalling PLN 1,086k were covered by impairment charges, other receivables under leasing agreements were considered recoverable.

(as per the IFRS of the EU, in PLN k)

Gross receivables from leasing agreements including unrealized revenues from leasing instalments, by maturities	**31.12.2017**	**31.12.2016**
up to 1 year	152 492	136 955
between 1 and 5 years	185 995	220 769
above 5 years	51 512	53 404
	389 999	**411 128**

Change in balance of impairment charges on leasing agreements	**31.12.2017**	**31.12.2016**
Opening balance	(3 365)	(1 884)
Increases resulting from purchase of business units	(850)	-
Increases	-	(3 365)
Cancellations	3 129	1 884
Closing balance	**(1 086)**	**(3 365)**

As at 31 December 2017, the total amount of receivables arising from lease agreements secured the financial liabilities. The exposure to credit risk, interest rate risk, currency risk and liquidity risk is presented in note 36.

24.Provided loans

The Capital Group provided long-term loans to its customers for financing the purchase of tangible fixed assets and it also provides services in the form of short-term recourse factoring.

The principal value of the loans oscillates around PLN 9m to PLN 12m and the loans were granted for the term from 60 to 120 months. The loans bear variable interest rates and they are secured with, amongst others, mortgage, registered pledge on tangible fixed assets, repossession of tangible fixed assets, transfer of receivables and blanc bill of exchange, etc.

The total value of valid factoring limits was PLN 120m as at 31 December 2017. The average term of invoice funding is 45 days. The factoring transactions are based on variable interest rates and as a standard, the recourse factoring agreements are secured with assignment of receivables from contracts and blank bill of exchange.

All receivables arising from provided loans and from factoring agreements are expressed in the domestic currency.

Receivables from loans	**31.12.2017**	**31.12.2016**
Long-term receivables from loans	10 669	12 858
Short-term receivables from loans	27 774	22 922
	38 443	**35 780**

Net receivables from loans	**31.12.2017**	**31.12.2016**
Gross receivables from loans	38 982	36 332
Impairment charge on receivables from loans	(539)	(552)
	38 443	**35 780**

(as per the IFRS of the EU, in PLN k)

Gross receivables from loans	31.12.2017	31.12.2016
With no impairment identified	38 443	35 780
With impairment identified, including:	539	552
- portfolio measured individually	539	552
	38 982	**36 332**

Impairment charge on receivables from loans	31.12.2017	31.12.2016
Portfolio measured individually	(539)	(552)
	(539)	**(552)**

Mix of gross receivables from loans, by maturity	31.12.2017	31.12.2016
up to 1 month	168	238
between 1 and 3 months	17 712	20 799
between 3 and 6 months	9 301	789
between 6 and 12 months	1 132	1 648
between 1 and 3 years	3 459	4 790
between 3 and 5 years	1 771	1 771
above 5 years	5 439	6 297
	38 982	**36 332**

Gross receivables from loans including unrealized revenues from leasing instalments	31.12.2017	31.12.2016
Gross receivables from loans	38 982	36 332
Unrealized financial revenues	1 382	2 018
	40 364	**38 350**

Past due receivables from loans	31.12.2017	31.12.2016
above 90 days	1 214	552
	1 214	**552**

Gross receivables from loans including unrealized revenues from leasing instalments, by maturities	31.12.2017	31.12.2016
up to 1 year	34 971	23 781
between 1 and 5 years	6 540	7 562
above 5 years	5 534	7 007
	47 045	**38 350**

Change in balance of impairment charges on loans	31.12.2017	31.12.2016
Opening balance	(552)	(552)
Cancellations	13	-
Closing balance	**(539)**	**(552)**

(as per the IFRS of the EU, in PLN k)

As at 31 December 2017, the total amount of receivables arising from loan agreements secured the financial liabilities.

The exposure to credit risk, interest rate risk, currency risk and liquidity risk is presented in note 36.

All past due receivables arising from provided loan agreements of PLN 539k were covered with impairment charges, while other receivables from loan agreements were considered as recoverable.

25. Trade receivables and other receivables

Trade receivables and other receivables	31.12.2017	31.12.2016
Trade receivables from non-connected entities	22 086	19 325
Receivables from tax, subsidy, customs, social security and other benefits	1 190	19 843
Other receivables	1 621	2 533
	24 897	**41 701**
- long-term	1 500	2 209
- short-term	23 397	39 492

As at 31 December 2017, trade receivables from non-connected entities were represented mainly by trade receivables arising from the sale of electric power and heat. Receivables arising from taxes, customs and insurance were represented mostly by VAT.

The Capital Group's exposure to credit risk and FX risk as well as related impairment charges are presented in note 36.

26. Inventories

Inventories	31.12.2017	31.12.2016
Materials	4 882	9 938
Ready made products	456	-
Energy certificates	1 256	1 241
CO2 emission allowances	13 952	15 780
Advance payments for supplies	-	68
	20 546	**27 027**

As at 31 December 2017, materials were represented mainly by the gathered coal stock.

As at 31 December 2017, the impairment charge on inventories set to revaluate the inventories to reflect the feasible net sale price, was PLN 1 755k (as at 31 December 2016, it was PLN 1 645k). In the profit and loss account, in the other operating revenues and other operating expenses, the value of impairment charge on inventory was presented at PLN 110k (creation) in 2017 and PLN 572k (creation) in 2016.

As at 31 December 2017, the inventory represented security for financial liabilities.

(as per the IFRS of the EU, in PLN k)

CO2 emission allowance	31.12.2017	31.12.2016
As at 01.01.2017	15 780	19 079
Purchase	9 895	8 513
Received (free of charge allocation)	2 728	3 200
Cancellation (as per annual emission)	(14 451)	(15 012)
As at 31.12.2017	**13 952**	**15 780**

Energy certificates	31.12.2017	31.12.2016
As at 01.01.2017	1 241	1 714
Generation	2 708	2 580
Sale	(2 759)	(2 443)
Impairment charge	66	(610)
As at 31.12.2017	**1 256**	**1 241**

27. Cash

Cash and cash equivalents	31.12.2017	31.12.2016
Cash at hand	8	8
Cash in current accounts	23 475	18 831
Short-term deposits	6 745	3 377
Total cash and cash equivalents	**30 228**	**22 216**
Cash and cash equivalents recognized in cash flows statement	30 228	22 216
Restricted cash	7 690	6 285

*Cash with limited disposability includes:
- deposits with Brokerage House – PLN 945k,
- short-term bills of exchange - PLN 6 745k.

28.Prepayments and accruals

	31.12.2017	31.12.2016
Prepayments and accruals related to insurance of leased assets	31	30
Insurance other	21	-
Other prepayments and accruals	25	30
	77	**60**

29. Equity

Equity	31.12.2017	31.12.2016
Opening number of shares	3 149 200	3 149 200
Closing number of shares (fully paid up)	**3 149 200**	**3 149 200**

Equity as at 31.12.2017	Number of shares (in items)	Nominal value per share (in PLN)	Balance sheet value (in PLN k)
A-series shares	3 149 200	5	15 746
Total number of shares	**3 149 200**		
Nominal value of share capital			15 746
Share capital resulting from hyperinflation revaluation			**21 982**
Total share capital			**37 728**
Supplementary capital			48 288
Reserve capital			44 843
Total other capital			**93 131**
Defined benefits plan revaluation reserve			(125)
Retained profits			38 960
Total equity			**169 694**

Equity as at 31.12.2016	Number of shares (in items)	Nominal value per share (in PLN)	Balance sheet value (in PLN k)
A-series shares	3 149 200	5	15 746
Total number of shares	**3 149 200**		
Nominal value of share capital			15 746
Share capital resulting from hyperinflation revaluation			21 982
Total share capital			**37 728**
Supplementary capital			45 352
Reserve capital			26 938
Total other capital			**72 290**
Defined benefits plan revaluation reserve			266
Retained profits			45 455
Total equity			**155 739**

As at 31 December 2017, the share capital of the dominant entity was PLN 37,728k. In the financial statements, the Capital Group presents the share capital as the nominal value of issued and acquired shares and the revaluation of PLN 21,982k resulting from the application of IAS 29.

IAS 29 — Financial Reporting in Hyperinflationary Economies stipulates that entities which operated during the hyperinflation period, should revaluate the components of their share capital at the general inflation rate.

The revaluation effects reduce the retained earnings. That adjustment is to reflect the hyperinflation influence over the financial result for a particular reporting period. The revaluation should apply to years 1990-1996. The adjustment does not change the value of the share capital presented in the financial statements, neither does it change the value of net assets per share.

The holders of ordinary shares are entitled to receive the approved dividends and have the right to one vote per share during the Annual General Meeting. All shares grant equal rights to the assets of the dominant entity in case of distribution of said assets.

Ownership structure of the share capital of the dominant entity as at 31 December 2017.

Shareholder	Number of shares	Nominal value of shares	Shareholding (%)
Krzysztof Kwiatkowski	952 499	4 762	30,25%
Waldemar Organista	453 146	2 266	14,39%
AgioFunds TFI SA	334 747	1 674	10,63%
Bank Gospodarstwa Krajowego	311 355	1 557	9,89%
Familiar S.A. SICAV - SIR	271 526	1 358	8,62%
State Treasury	157 466	787	5,00%
Other shareholders	668 461	3 342	21,23%
	3 149 200	**15 746**	**100,00%**

Dividends
In 2016 and in 2017, the dominant entity did not pay any dividend.

Supplementary capital
Pursuant to §396 of the Code of Commercial Companies, the dominant entity is obligated to keep the retained profits (the supplementary capital) in the amount representing up to 1/3 of the share capital and to allocate it covering the potential financial losses only. The entity must allocate to that purpose minimum 8% of the current profit until the required equivalent of 1/3 of the share capital is gathered. As at 31 December 2017, the capital was PLN 48.288k.

Other reserve capital
Oher reserve capital are represented mainly by amounts allocated by force of decision of the Annual General Meeting in the process of distributing the financial profit.

Benefits revaluation reserve
The capital is represented primarily by actuarial profits (losses) recognized in other total income from employee benefits revaluation reserve (defined benefits plan).

Retained profits
The item includes non-distributed profits(losses) from previous years as well as adjustments resulting from determination of the assumed cost of tangible fixed assets (measured at fair value) as at the moment of transferring to the IFRS-compliant statements. The amount resulting from the adjustment is not taken to the amount subject to distribution by force of the Annual General Meeting decision.

30.Profit per share

The main profit per share is calculated through dividing net profit generated in the accounting term (said profit distributable to ordinary shareholders of the dominant entity) by the average weighted number of issued ordinary shares and valid in such accounting term.

No dilution factors occurred during the term covered by these consolidated financial statements and during the previous accounting year, therefore the main profit per share equals the diluted profit per share.

	31.12.2017	31.12.2016
Opening number of shares	3 149 200	3 149 200
Closing number of shares	3 149 200	3 149 200
Average weighted number of issued shares	**3 149 200**	**3 149 200**

	31.12.2017	31.12.2016
Net profit distributed amongst shareholders of dominant entity (in PLN k)	14 346	19 459
Number of shares	3 149 200	3 149 200
Main profit per share (PLN/share)	**4,6**	**6,2**

(as per the IFRS of the EU, in PLN k)

31. Liabilities from loans, credits and other debt instruments

This note presents information about the Capital Group's liabilities arising from loans, credits and other debt instruments measured at amortised cost. Information about the Capital Group's exposure to credit risk, interest rate risk and liquidity risk is presented in note 36.

Liabilities from loans, credits and other debt instruments	31.12.2017	31.12.2016
Long-term liabilities		
Secured loans and credits	253 741	295 385
Liabilities due from IRS	152	-
Liabilities from debt securities and interest	29 879	30 020
Financial lease liabilities	5 327	9 360
	289 099	**334 765**
	31.12.2017	**31.12.2016**
Short-term liabilities		
Secured loans and credits	163 117	144 124
Liabilities from debt securities (non-secured)	5 471	4 939
Financial lease liabilities	3 942	1 399
	172 530	**150 462**

Both, short-term and long-term liabilities arising from loans and credits are represented mainly by liabilities financing the activity of Energetyczne Towarzystwo Finansowo-Leasingowe Energo- Utech S.A.

As at 31 December 2017, secured loans and credits were represented by secured loans and credits granted by financial institutions, said facilities denominated in PLN, bearing WIBOR-based variable interest rate and margin of the financing institution. The average nominal value of said interest rate was 4.45% as at 31 December 2017.

Long-term liabilities arising from debt securities, in the amount of PLN 29,768k result from the bonds issue aiming to finance the purchase of shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. The bonds issue took place on 13 April 2015 and its total nominal value was PLN 30,000k. The bonds are 3Y instruments (redemption date at 15 April 2018) bearing 6M WIBOR reference rate plus margin of 4.5 p.p.. At the end of 2015, the Capital Group purchased its own bonds worth PLN 500k for the purpose of their redemption.

With reference to the current report no. 17/2015 dated 13 April 2015, in which Elektrociepłownia "Będzin" S.A. (the Company, the Issuer) informed about the issue and the Terms and Conditions of Issuing A-Series Bonds, the Company's Management Board informs that after receiving written statements on the consent of all Bondholders to change the Terms and Conditions of Issuing A-Series Bonds and after obtaining all corporate approvals, the Issuer made amendments to the Terms and Conditions of Issuing A-Series Bonds issued by Elektrociepłownia "Będzin" S.A. in such a way that the issuing period for the foregoing bonds was extended by 1 year, and their redemption will take place on 10 April 2019. Other Terms and Conditions of Issuing A-Series Bonds remain unchanged.

Short-term liabilities arising from debt securities result from the issue of non-secured bills of exchange to be redeemed by 30 June 2018, said bills of exchange acquired by an entity connected with the Capital Group. The average nominal value of interest rate on the bills of exchange was 6.0% as at 31 December 2017.

Financial lease liabilities stem mainly from nine financial lease agreements secured with the leased assets, said agreements signed with SGB Leasing Sp. z o.o., with the final repayment dates scheduled from 2018 to 2025. As at 31 December 2017, the average nominal value of interest rate on the said agreements was 5.0%.

The leased assets handed over for use, the receivables from said agreements, the receivables from loan agreements, trade receivables and tangible fixed assets represent collateral for the credit liabilities. The exposure to credit risk, interest rate risk, FX risk and liquidity risk is presented in note 36.

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As at 31 December 2017, the Capital Group has available overdraft limits of PLN 3 873k and can issue bills of exchange up to PLN 20 000k under an agreement made with the bank.

32. Employee benefits liabilities

Change in current value of liabilities under defined benefits	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Opening balance of liabilities under defined benefits	4 165	3 148
Current employment cost	125	1 249
Interest cost	109	103
Defined benefits plan revaluation reserve recognized in other comprehensive income	483	(226)
Future employment cost	-	(23)
Restrictions/ liquidation of plan	(4)	-
Benefits paid	(298)	(86)
Closing balance of liabilities under defined benefits	**4 580**	**4 165**

Change in current value of liabilities under defined employee benefits	01.01.2017 - 31.12.2017	01.01.2016 - 31.12.2016
Opening balance of liabilities under defined employee benefits	8 424	7 447
Current employment cost	7 402	4 599
Interest cost	116	127
Defined benefits plan revaluation reserve recognized in other comprehensive income	(1 336)	(286)
Benefits paid	(5 127)	(3 444)
Released	-	(19)
Closing balance of liabilities under defined employee benefits	**9 479**	**8 424**

Liabilities under defined benefits include: provision for retirement severance payments, provision for disability severance payments, provisions for death-in-service severance payments, provisions for power discount and provisions for Employee Benefit Fund charge.

Actuarial assumptions

Main actuarial assumptions as at the balance sheet date (expressed as the average weighted amounts):

	The year ending on 31 December 2017	The year ending 31 December 2016
Discount rate as at 31 December	3.2%	3.5%
Future salary increase	5.0%	5.0%

Assumptions concerning the future death rate are based on the published statistical data and on the death rate charts.

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Change in balance of liabilities under employee benefits	Service anniversary awards	disability severance payments	Other liabilities	Total
As at 01.01.2017	**4 087**	**2 886**	**5 616**	**12 589**
Raised	1 583	209	5 956	7 748
Utilised	(1 907)	(170)	(3 348)	(5 425)
Released	(1 049)	-	(287)	(1 336)
Revaluation of provisions recognized in other comprehensive income	-	665	(182)	483
As at 31.12.2017	**3 763**	**3 590**	**7 755**	**14 059**
long-term provisions	2 401	2 929	3 975	9 305
short-term provisions	1 000	661	3 093	4 754

Change in balance of liabilities under employee benefits	Service anniversary awards	Retirement and disability severance payments	Other liabilities	Total
As at 01.01.2016	**4 611**	**2 946**	**3 038**	**10 595**
Raised	209	208	5 548	5 965
Utilised	(733)	(84)	(2 711)	(3 531)
Released			(214)	(214)
Revaluation of provisions recognized in other comprehensive income		(181)	(45)	(226)
As at 31.12.2016	**4 087**	**2 886**	**5 616**	**12 589**
long-term provisions	3 699	2 570	2 155	8 424
short-term provisions	388	316	3 461	4 165

Other liabilities include, inter alia: provisions for death-in–service severance payments, provisions for Employee Benefit Fund charge, unused holiday allowances and provisions for service anniversary awards for employees and for the Management Board.

33. Trade liabilities and other liabilities

Trade liabilities and other liabilities	31.12.2017	31.12.2016
Other liabilities to connected entities	-	6 838
Trade liabilities to non-connected entities	19 678	20 939
Tax, customs and social insurance liabilities	4 036	3 045
Payroll liabilitis	605	391
Defered income	184	181
Other liabilities	12 882	7 534
Total trade liabilities and other liabilities	**37 385**	**38 928**
long-term	5 597	17 038
short-term	31 788	21 890

Other liabilities to connected entities – PLN 9 029k are represented by part of purchase price for the shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A., the payment of which was deferred by 30 June 2018 in accordance with the agreement.

Exposure to liquidity risk in terms of liabilities was presented in note 36.

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34. Provisions

Provisions	Provision for CO2 emission allowance	Other provisions	Total
Value as at 01.01.2017	**14 451**	**7 765**	**22 216**
Raised	12 884	953	13 837
Utilised	(14 451)	(157)	(14 608)
Released	-	(2 950)	(2 950)
Value as at 31.12.2017	**12 884**	**5 762**	**18 646**
long-term	-	4 744	4 744
short-term	12 884	1 018	13 902

Provision for CO_2 emission allowances
The provision is raised for liabilities arising from the emission of pollution to the atmosphere, which are measured as the product of allowances necessary for cancellation due to the effected emission and the unit cost of emission allowances held by the Group and payable as at the balance sheet date. The unit cost of allowances necessary to cover the estimated emission is calculated using FIFO method. The Capital Group is obliged to cancel relevant number of emission allowances by the end of April next year.

Other provisions
The item is represented mainly by provision for implications of liquidation of the licensed activity– liquidation of water boiler WP-120 no. 9 and no. 8. The provision is subject to revaluation as at the balance sheet date based on cost estimate prepared by a third party entity offering services in the scope of planned liquidation work. As at 31 December 2017, the provision totalled PLN 4 744k, while as at 31 December 2016, it was PLN 7412k. The work covered by the provision is scheduled to be delivered by the end of 2019. Change in the balance of provisions was caused by the new scope of activities related to the restoration duty imposed on the Group.

35. Subsidies

In 2017, in effect of receiving free of charge CO_2 emission allowances, the Company recognized subsides of PLN 2 727k, which were taken to the financial result of the same financial year.

36. Financial instruments

36.1 Equity management

The objective of equity risk management by the Capital Group is to ensure business continuity so that to ensure benefits to the shareholders and other stakeholders and to maintain the optimum equity structure.

The Capital Group does not identify any external factors influencing the equity management, with the exception of requirements concerning the minimum level of share capital set forth in the Code of Commercial Companies. The minimum level of share capital is complied with by the Group.

Moreover, in accordance with the Code of Commercial Companies, the supplementary capital should be maintained in the amount representing up to 1/3 of the share capital. The Capital Group must allocate to that purpose minimum 8% of the current profit until the required equivalent of 1/3 of the share capital is gathered. As at 31 December 2017, the supplementary capital of the Capital Group was compliant with the foregoing requirement.

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36.2 Categories of financial instruments

Financial assets	31.12.2017	31.12.2016
Loans and receivables	399 184	408 297
Cash and cash equivalents	30 228	22 216
	429 412	**430 513**
Recognized in financial statements as:		
Trade receivables and other receivables	23 707	21 858
Cash and cash equivalents	30 228	22 216
Granted loans	38 443	35 780
Receivables from leasing agreements	337 034	350 659
	429 412	**430 513**

Financial liabilities	31.12.2017	31.12.2016
Measured at amortised cost	494 978	521 110
Measured at fair value	-	-
	494 978	**521 110**
Recognized in financial statements as:		
Long-term liabilities under loans, credits and other debt securities	289 099	334 765
Short-term liabilities under loans, credits and other debt securities	172 530	150 462
Trade liabilities and other	33 349	35 883
	494 978	**521 110**

36.3 Financial risk management

The Capital Group is exposed to numerous financial risks triggered by financial instruments. The main risks include credit risk, financial liquidity risk, FX risk and interest rate risk. The objective of financial risk management in the Group is mitigation of said risks and limitation of market factors' impact on financial performance of the Group.

Credit risk

Credit risk is the risk of incurring financial loss by the Group in a situation when the other party to the financial instrument fails to meet terms and conditions stipulated by the financial instrument agreement. Credit risk is mainly related to trade receivables, provided loans and receivables from leasing agreements. The objective of credit risk management is to maintain stable and balanced in terms of quality and quantity portfolio of receivables. The ongoing customer monitoring policy applied by the Group in this respect allows to identify credit risk at the offering stage and throughout agreements validity terms.

As the Capital Group enters into a limited number of agreements during a year and as the Group's customers are represented mainly by corporate enterprises, the credit risk is analysed on an individual basis. Repayment capacity of each new customer is assessed prior to signing a loan agreement or lease agreement in order to mitigate credit risk involved.

Leased assets are insured and insurance policies are assigned onto the Capital Group. Establishment of collateral significantly reduces risk triggered by potential non-fulfilment of duties stipulated by financial lease agreements by customers.

As regards leasing agreements in place, the Capital Group takes the following actions to monitor the financial standing of customers and the credit risk on an on-going and periodical basis:

- Periodical analysis of customer's business and financial standing performed based on financial documents in the form of balance sheet, profit and loss account or F-01 spreadsheet along with

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information about past due liabilities and receivables (every quarter, by 25th day of a month following the last month of a quarter),
- Annual review of customer's financial standing performed based on annual, final financial documents in the form of balance sheet, profit and loss account, together with opinion and report of a chartered auditor if the company's statements are audited, as well as, information about past due liabilities and receivables (by 31st of May each year for the previous fiscal year, at the latest),
- At the request of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. customers must provide 5-year financial projections, information about raised financial liabilities (loans, leasing, etc.), opinion of a bank managing the customer's current account as well as confirmation of clear track records from ZUS (Social Insurance Office) and Tax Office.

In case of delays in the inflow of receivables from customers, the following actions are taken, however the scope of actions may differ for each customer depending on the actual amount and days past due: phone contact, written debt settlement request, pre-court demand for debt payment, contracting a law firm to initiate debt recovery proceedings in court and negotiations with customer on establishment of additional collateral for a transaction.

The Capital Group makes impairment charges on receivables arising from lease agreements and loan agreements in the following circumstances:
- delays in the repayment of receivables,
- periodical assessment of financial standing indicating the risk of the customer's insolvency.

The impairment charge amount is set individually for each customer. Cash flows measured to estimate the impairment are calculated based on the following:
- anticipated inflow of funds from the customer,
- likelihood of debt recovery,
- value of collateral in place.

Given the profile of the leasing portfolio, the Capital Group does not perform the collective assessment of credit risk.

Credit risk by categories of financial assets (without consideration of collateral in place)

	31.12.2017	**31.12.2016**
Loans and receivables, including:	429 412	430 513
leasing agreements	337 034	350 659
granted loans	38 443	35 780
trade receivables and other	23 707	21 858
cash and cash equivalents	30 228	22 216
	429 412	430 513

Establishment of collateral for the benefit of the Capital Group
Establishment of collateral for the benefit of the Capital Group preconditions the signing of a leasing agreement. The lessee is obligated to establish relevant security in the form of blanc bill of exchange together with a bill of exchange declaration, or to provide mortgage, guarantee, assignment of receivables or pledged deposit.

Concentration of credit risk triggered by leasing agreements, by geographical location
All leasing agreements have been signed and are executed in Poland.

	31.12.2017	**31.12.2016**
Poland	337 034	350 659
	337 034	350 659

(as per the IFRS of the EU, in PLN k)

Concentration of credit risk triggered by leasing agreements, by business sectors

	31.12.2017	31.12.2016
Rail transport	169 240	169 666
Road transport	60 821	71 839
Energy sector	24 647	49 391
Other	82 326	59 763
	337 034	350 659

Concentration of credit risk triggered by leasing agreements, by top exposures

	31.12.2017	31.12.2016
Customer A	54 559	58 781
Customer B	27 979	37 044
Customer C	24 543	27 373
Customer D	23 214	26 473
Customer E	22 365	24 229
Other	184 374	176 759
	337 034	350 659

Quality of leasing agreements portfolios

Gross value	31.12.2017	31.12.2016
Non- past due	330 572	350 659
Past due	7 548	3 365
	338 120	**354 024**

Impairment charges	31.12.2017	31.12.2016
Past due	(1 086)	(3 365)
	(1 086)	(3 365)

Net value	31.12.2017	31.12.2016
Non- past due	330 572	350 659
Past due	6 462	-
	337 034	350 659

As at 31 December 2017, the Group had a high balance of overdue receivables not subject to write-off. For more information – see page 45.

Age structure of trade receivables

Gross value	31.12.2017	31.12.2016
Non- past due	18 293	19 242
Past due from 1 to 30 days	3 799	76
Past due from 31 to 60 days	846	19
Past due from 61 to 180 days	-	15
Past due from 181 days to 1 year	102	83
Past due above 1 year	124	37
	23 164	19 472

(as per the IFRS of the EU, in PLN k)

Impairment charges	31.12.2017	31.12.2016
Non- past due	(2)	(4)
Past due from 1 to 30 days	(4)	(3)
Past due from 31 to 60 days	(846)	(2)
Past due from 61 to 180 days	-	(15)
Past due from 181 days to 1 year	(102)	(86)
Past due above 1 year	(124)	(37)
	(1 078)	(147)

Net value	31.12.2017	31.12.2016
Non- past due	18 291	19 235
Past due from 1 to 30 days	3 795	73
Past due from 31 to 60 days	-	17
Przeterminowane od 61 do 180 dni	-	-
Przeterminowane od 181 dni do roku	-	(3)
Przeterminowane powyżej roku	-	-
	22 086	19 325

Change in the balance of impairment charges on loans and receivables	31.12.2017	31.12.2016
Opening balance	(147)	(38)
Impairment charge recognized in reporting term	(931)	(109)
Closing balance	(1 078)	(147)

Liquidity risk

Liquidity risk is defined as the risk whereby the Capital Group would not be capable of settling its financial liabilities with cash or with another financial asset. The objective of liquidity management by the Capital Group is to ensure sufficient capacity to settle the Group's liabilities, both in business as usual situations and in stress situation, without exposing the Group to unnecessary losses and without challenging its good reputation.

The main tool for financial liquidity risk management is the policy of entering into agreements made to fund the financial leasing agreements, whereby the payment dates of the funding agreements match as closely as possible the payment dates of the leasing agreements. In that way, the Capital Group ensures inflow of funds when its financial liabilities become due and payable.

In case of delays in the repayment of receivables under leasing agreements, the Capital Group has overdraft limits available. As at 31 December 2017, the balance of undrawn overdraft limits was PLN 3,873k. As at 31 December 2017, refinancing was sought for leasing receivables of PLN 3,500k.

As at 31.12.2017	Current value	Total cash flows from agreement	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	from 1 to 5 years	Above 5 years
Loans and receivables, including:	430 602	485 568	62 682	52 079	100 847	212 913	57 047
leasing agreements	*337 034*	*389 999*	*9 088*	*32 989*	*90 035*	*206 374*	*51 513*
granted loans	*38 443*	*40 364*	*217*	*17 262*	*10 812*	*6 539*	*5 534*
trade receivables and other	*23 707*	*23 787*	*21 959*	*1 828*	-	-	-
cash and cash equivalents	*30 228*	*30 228*	*30 228*	-	-	-	-
Other financial liabilities, including:	(495 359)	(532 237)	(50 251)	(25 364)	(141 388)	(245 387)	(69 847)
liabilities under loans and credits	*(461 629)*	*(498 246)*	*(34 374)*	*(25 149)*	*(129 081)*	*(239 795)*	*(69 847)*
other liabilities	*(33 349)*	*(33 610)*	*(15 496)*	*(215)*	*(12 307)*	*(5 592)*	-
	(64 757)	(46 669)	12 431	26 715	(40 541)	(32 474)	(12 800)

(as per the IFRS of the EU, in PLN k)

As at 31.12.2016	Current value	Total cash flows from agreement	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	from 1 to 5 years	Above 5 years
Loans and receivables, including:	450 356	510 029	56 849	69 301	94 857	225 220	63 802
leasing agreements	350 659	407 762	10 618	30 963	92 010	217 049	57 122
granted loans	35 780	38 350	299	20 360	2 840	8 171	6 680
other receivables	21 858	21 858	21 858	17 978	7	-	-
cash and cash equivalents	22 216	22 216	22 216	-	-	-	-
Other financial liabilities, including:	(524 155)	(568 590)	(57 059)	(32 074)	(126 953)	(280 949)	(70 555)
liabilities under loans and credits	(485 227)	(529 662)	(37 464)	(31 893)	(125 174)	(263 576)	(70 555)
other liabilities	(35 883)	(35 883)	(16 550)	(181)	(1 779)	(17 373)	-
	(90 597)	(75 359)	977	19 249	(32 103)	(55 729)	(6 753)

Cash flows from the agreement were determined based on interest rates applicable as at 31 December 2017.

The Capital Group does not expect that the projected cash flows presented in the analysis of maturity terms may occur substantially earlier or in substantially different amounts.

In the cash flows, the Capital Group did not include the cash flows from agreements on the lease of tangible fixed assets which were financed with loans. The current value of tangible fixed assets leased out in the financial sector totals PLN 22,589k as at 31 December 2017 and it generates the annual cash flows of PLN 5,795k, while in the power sector it totals PLN 3,938k and it generates the annual cash flows of PLN 559k. Moreover, every year liabilities arising from loans and credits also include the value of debt securities, which in practice are taken forward to the next accounting periods.

FX risk

Foreign currency risk is triggered by the potential changes in cash flows generated by the Capital Group, such changes caused by fluctuations of exchange rates of foreign currencies in which the cash flows figures are expressed.

Apart from transactions related to the purchase of CO_2 emission allowances, the Group is not exposed to the fx risk arising from buy or sell transactions in various foreign currencies as transactions related to the Group's business activity are made on the domestic market, in the domestic currency.

During the reporting period, the Capital Group did not make transactions hedging the foreign currency risk.

Interest rate risk

Interest rate risk applies mostly to cash and equivalent funds, to financial assets, as well as, bank loans and credits and leasing agreements.

The Capital Group offers to its customers primarily facilities bearing variable interest rates whose fluctuations depend on fluctuations in the base rate. The base rate is the reference rate on interbank deposits (WIBOR).

In principle, the Capital Group does not enter into financial leasing agreements on fixed interest rate.

Therefore, the main risk threatening the Capital Group is its exposure to changeability of cash flows triggered by fluctuations of the reference rate. The Capital Group mitigates the interest rate risk through refinancing each of the leasing agreements in the bank, however the interest rate on financial liability financing a particular leasing agreement is set at the same base rate. Owing to that mechanism, fluctuations in cash flows from leasing agreements caused by changes in the base rate are offset by the corresponding changes in cash flows related to financial liabilities.

The Capital Group does not apply any additional instruments hedging the interest rate risk.

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Structure of interest bearing financial instruments

	31.12.2017	31.12.2016
Instruments based on variable interest rate		
Loans and receivables, including:	405 705	408 655
leasing agreements	337 034	350 659
granted loans	38 443	35 780
cash and cash equivalents	30 228	22 216
Other financial liabilities, including:	(409 031)	(435 087)
liabilities under loans and credits	(409 031)	(435 087)
	(3 326)	(26 432)
Instruments based on fixed interest rate		
Loans and receivables, including:	23 707	21 858
trade receivables and other	23 707	21 858
Other financial liabilities, including:	(85 947)	(86 023)
liabilities under loans and credits	(52 598)	(50 140)
other liabilities	(33 349)	(35 883)
	(62 240)	(64 165)

Assets and liabilities based on variable interest rate

	31.12.2017	31.12.2016
Assets		
Receivables based on WIBOR	375 477	386 439
	375 477	386 439
Liabilities		
Liabilities based on WIBOR	(409 031)	(435 087)
	(409 031)	(435 087)
Gap		
Receivables - liabilities based on WIBOR	(33 554)	(48 648)
	(33 554)	(48 648)

Sensitivity analysis of cash flows from instruments based on variable interest rate

(as per the IFRS of the EU, in PLN k)

A change of interest rate by 100 base points would translate into reduction of equity and profit before tax by PLN 33k. The below-presented analysis was made at the assumption that other variables would remain unchanged.

	Equity without profit or loss in current period	Profit or loss in current period
31.12.2017		
WIBOR (growth by 100 pb)		(33)
31.12.2016		
WIBOR (growth by 100 pb)		(264)

Assets and liabilities based on fixed interest rate

	31.12.2017	31.12.2016
Assets		
Receivables in PLN	23 707	21 858
	23 707	21 858
Liabilities		
Liabilities in PLN	(85 947)	(86 023)
	(85 947)	(86 023)
Gap		
Receivables - liabilities in PLN	(62 240)	(64 165)
	(62 240)	(64 165)

37 Fair value of financial instruments

Principles of determining the fair value are described in note 9.

Hierarchy of financial instruments measured at fair value

The table below presents the analysis of financial instruments measured at fair value, depending on the applied valuation method. The following data inputs underlie the valuation method, depending on the valuation level:

- Level 1: inputs are quoted (non-adjusted) market price in an active market for identical assets and liabilities,
- Level 2: inputs other than quoted market prices applied at Level 1, observable for identical or similar assets and liabilities both directly (e.g. as prices) or by correlation (e.g. derivative of reserves),
- Level 3: inputs are unobservable market prices (unobservable inputs).

Comparison of fair value to book value

(as per the IFRS of the EU, in PLN k)

	Current value	Fair value	Hierarchy level
As at 31.12.2017			
Loans and receivables, including:	429 412	428 589	
leasing agreements	337 034	336 211	3
granted loans	38 443	38 443	3
trade receivables and other	23 707	23 707	3
cash and cash equivalents	30 228	30 228	3
Other financial liabilities, including:	(494 978)	(494 219)	
liabilities under loans and credits	(461 629)	(460 870)	3
other liabilities	(33 349)	(33 349)	3
	(65 566)	**(65 630)**	

	Current value	Fair value	Hierarchy level
As at 31.12.2016			
Loans and receivables, including:	430 513	429 324	
leasing agreements	350 659	349 470	3
granted loans	35 780	35 780	3
trade receivables and other	21 858	21 858	3
cash and cash equivalents	22 216	22 216	3
Other financial liabilities, including:	(521 110)	(519 980)	
liabilities under loans and credits	(485 227)	(484 097)	3
other liabilities	(35 883)	(35 883)	3
	(90 597)	**(90 656)**	

Interest rates applied when measuring fair value
- receivables from leasing transactions – 4.92%
- loans provided – 4.44%
- liabilities arising from loans and credits – 4.45%

38 Explanations to the cash flows statement

Reasons behind differences between the balance sheet changes in selected items and changes recognized in the cash flows statement:

Change in the balance of receivables from leasing agreements	**01.01.2017-31.12.2017**	**01.01.2016-31.12.2016**
Change in the balance sheet value of receivables from leasing agreements	13 625	(20 616)
Adjustment of receivables from leasing agreements by non monetary transfers	(1 738)	-
Change in the balance of receivables from leasing agreements	**15 363**	**(20 616)**

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Change in the balance of trade and other liabilities	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Change in the balance sheet value of trade and other liabilities	(1 543)	836
Change in the balance of investment liabilities	(36)	4 206
Deferred liabilities with discount effect related to purchased shares in ETF-L ENERGO- UTECH SA	(444)	-
Change in the balance of trade and other liabilities	**(2 023)**	**5 042**

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Change in the balance of trade and other receivables	16 804	(14 087)
Other	224	482
Change in the balance of trade and other receivables	**17 028**	**(13 605)**

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Change in the balance sheet value of provisions and liabilities under employee benefits	(2 100)	4 325
Change in the balance of provisions recognized in defined benefit programme revaluation reserve	(483)	266
Other adjustments	153	(123)
Change in the balance of provisions and liabilities under emoloyee benefits	**(2 430)**	**4 468**

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Current income tax	(3 097)	(7 482)
Change in the balance of income tax receivables	411	392
Change in the balance of income tax liabities	(4 748)	5 213
Tax paid recognized in cash flows statement	**(7 434)**	**(1 877)**

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
Expenditures on tangible fixed assets under construction	(29 299)	(59 676)
Change in the balance of investment liabilities	(2 085)	(4 206)
Investment liabilties settled directly by lending bank	22 511	43 330
Other	-	(545)
Purchase tangiblefixed assets	**(8 873)**	**(21 097)**

39 Contractual liabilities raised to purchase tangible fixed assets and intangible assets

On 3 June 2015, Elektrociepłownia BĘDZIN Sp. z o.o. signed annex to contract no. 99/EC/2014 made with SBB Energy S.A. on the delivery of project "Construction of flue gas desulphurisation and denitrogenation installation". The total value of the investment was estimated at PLN 130m. As at 31 December 2017, the total value of capital expenditures incurred on the above agreement amounted to PLN 127.4m.

(as per the IFRS of the EU, in PLN k)

40 Conditional liabilities and proceedings pending before court

No court cases, either filed by or against Elektrociepłownia BĘDZIN S.A. (dominant entity) are pending.

No court cases, either filed by or against Elektrociepłownia BĘDZIN Sp. z o.o. (subsidiary) are pending.

On 19 November 2014, Energetyczne Towarzystwo Finansowo- Leasingowe Energo-Utech SA (subsidiary) brought a case for the payment of claim arising from recourse factoring, said claim of PLN 679.5k.

On 30 January 2015, order for payment under the writ of payment proceedings was ruled thus obligating the supplier and the debtor to pay to Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech SA the amounts due plus interest accrued by the maturity date. The supplier did not appeal against the aforementioned order for payment and on 11 June 2015, motion for initiation of execution proceedings was filed. The debt collection proceedings conducted by the Court Bailiff were discontinued. The debt collection was considered ineffective. The debtor company has appealed against the order for payment; the court proceedings are pending before the District Court in Poznań. The court proceedings are pending. On 17 May 2017, the District Court in Poznań, 9th Commercial Division, passed a sentence thus dismissing the claim. On 19 July 2017, Energetyczne Towarzystwo Finansowo – Leasingowe Energo–Utech S.A. appealed against the verdict of the Regional Court in Poznań, 9th Commercial Division of 17 May 2017. On 2 October 2017, the debtor responded to the aforementioned appeal. At this stage, it is impossible to determine the resolution of the case and to assess the financial consequences. The disputable amount is covered with provision.

41 Operating lease, rent and lease agreements

The Capital Group has operating lease agreements where it acts both, as the lessor and the lessee.

Minimum payments under irrevocable operating lease agreements (where the Group acts as the lessee) are presented in the table below:

	31.12.2017	31.12.2016
up to 1 year	102	43
from 1 to 5 years	-	102
	102	145

The leased asset is a passenger car. The agreement was made for 3 years, at variable interest rate with the option to purchase the leased asset after the expiry of the term of the agreement.

Minimum payments under irrevocable operating lease agreements (where the Group acts as the lessor) are presented in the table below:

	31.12.2017	31.12.2016
up to 1 year	8 082	11 683
from 1 to 5 years	14 822	21 777
above 5 years	932	1 350
	23 836	34 810

The leased assets are primarily represented by railway means of transportation (term of the agreement – 5 years) and fixed assets in the power sector (term of the agreement – 10 years).

42 Transactions with connected entities

Transactions with persons holding managerial or supervisory positions

(as per the IFRS of the EU, in PLN k)

During the reporting period ending on 31 December 2017, no advances, loans, credits, guarantees or other liability-raising agreements were provided or made with persons holding managerial or supervisory positions, their spouses, or persons related to them by blood or by marriage.

Remuneration of persons holding key managerial or supervisory positions in the dominant entity of the Capital Group (without provisions raised for awards) is presented in the table below:

	31.12.2017	31.12.2016
Base salary	470	416
Bonus	856	299
	1 326	**715**

Other transactions with connected entities

As at 31.12.2017	Receivables	Liabilities
MDW Glanowski	-	8 797
Autodirect S.A.	18	-
	18	**8 797**

For the period of 01.01.2017-31.12.2017	Purchased services	Other purchases
Autodirect S.A.		8
MDW Glanowski	-	556
	-	**564**

Liabilities to MDW Glanowski are represented by liabilities due from loans, credits and other debt securities.

As at 31.12.2016	Receivables	Liabilities
Krzysztof Kwiatkowski	-	296
Waldemar Organista	-	4 853
MDW Glanowski	-	11 728
Autodirect SA	4	-
Promobil Fleet sp. z o. o.	271	-
	275	**16 877**

As at 31.12.2016	Purchased services	Other purchases
MDW Glanowski		487
	-	**487**

Other purchases are represented by interest on loans and credits.

All transactions with connected entities were arm's length transactions.

43 Events after the balance sheet date

(as per the IFRS of the EU, in PLN k)

No significant events occurred after the balance sheet date that would have a major impact on the current business activity of the Capital Group.

On 18 December 2017, the Company announced the selection of the bidder with whom it will conduct further negotiations in the procedure for the purchase of 100% shares in Elektrociepłownia Będzin sp. z o.o. (the subsidiary). The projected schedule of the transaction, which takes account the decision of Tauron Ciepło sp. z o.o. on exercising the right of first refusal in terms of the shares in Elektrociepłownia Będzin sp. z o.o., assumes that the transaction would be made in Q1 2019. The transaction is conditional on the successful completion of the due diligence process, the administrative and corporate consents and the decision of Tauron Ciepło sp. z.o.o. on the right of first refusal.

44 Manpower

The average staff numbers in the Capital Group (expressed in FTEs) was as follows:

	31.12.2017	**31.12.2016**
Production staff	133	89
Office staff	90	79
	223	**168**

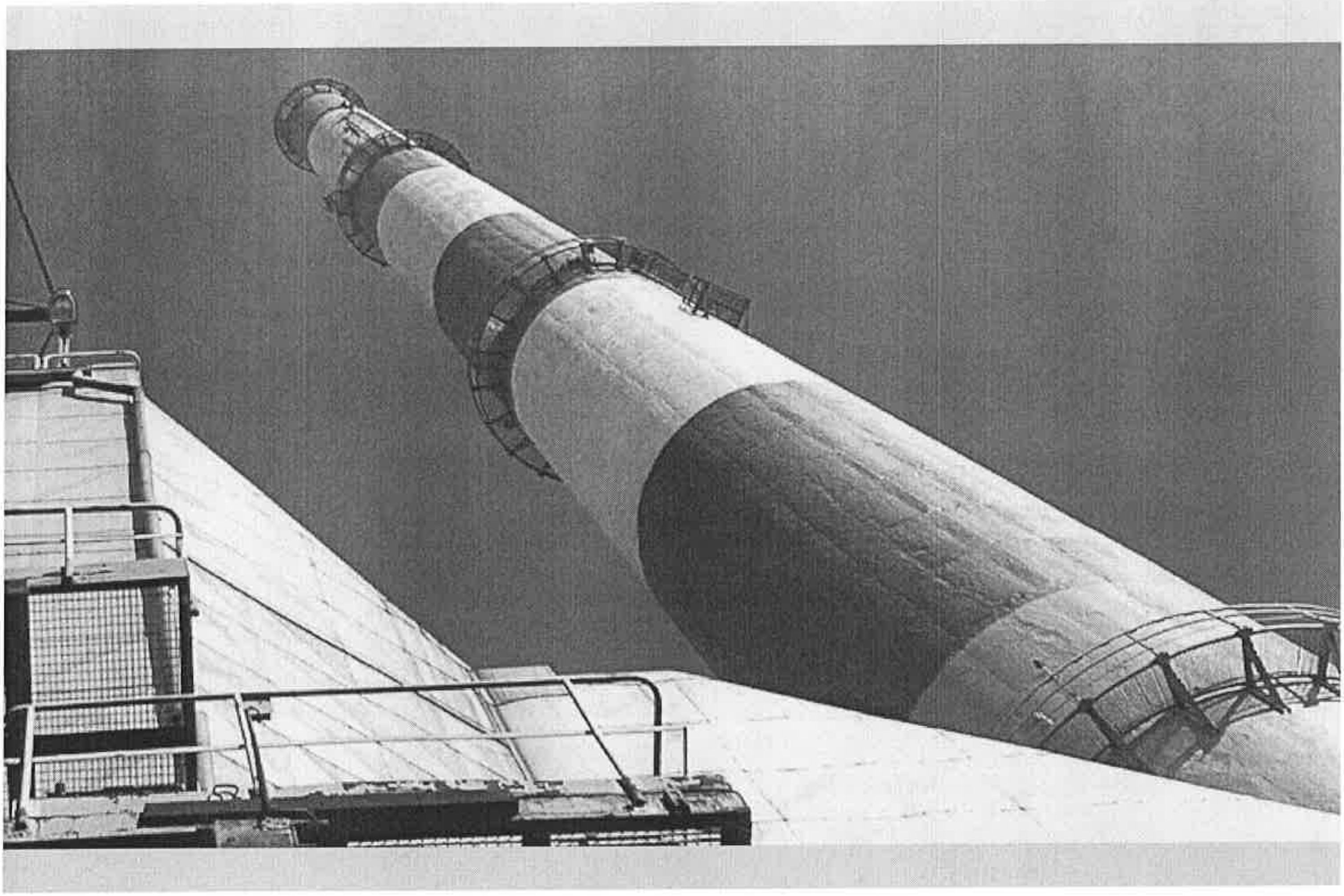
45 Remuneration of entity authorised to audit the financial statements

In 2017, pursuant to agreements of 19 June 2016 on examination of consolidated and non-consolidated financial statements and on examination of semi-annual consolidated and non-consolidated financial statements, the entity authorised to examine financial statements was KPMG Audyt Sp. z o.o. Sp. k. with the registered office in Warsaw at ul. Inflancka 4a (National Court Register registration no. KRS 0000339379). The contractual remuneration totalled PLN 32k plus VAT.

In 2016, pursuant to agreement of 29 June 2016 on examination of financial statements and on examination of semi-annual financial statements, the entity authorised to examine financial statements was KPMG Audyt Sp. z o.o. Sp. k. with the registered office in Warsaw at ul. Inflancka 4a (National Court Register registration no. KRS 0000339379). The contractual remuneration totalled PLN 45k plus VAT.

46 Approval of consolidated financial statements

These consolidated financial statements were produced and approved for publication by the Management Board of the dominant entity on 27 April 2018.



Management Board Report

on the activity of Elektrociepłownia "Będzin" S.A. Group in 2017

Content

1. Introduction

The Management Board of Elektrociepłownia Będzin S.A. hereby presents the Management Board Report on Elektrociepłownia "Będzin" S.A. Group Activity the accounting year 2017. The Report was prepared on the basis of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2014.133, standardised text).

2. Essential information about Elektrociepłownia "Będzin" S.A. Group

2.1. Main data of the dominant entity and the Capital Group

Elektrociepłownia "Będzin" is the dominant entity of Elektrociepłownia "Będzin" S.A. Capital Group.

The subsidiary is Elektrociepłownia BĘDZIN Sp. z o.o. with the registered office in Będzin (42-500) at ul. Małobądzka 141, in which the company holds 100% of shares and Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. with the registered office in Poznań (61-144) at ul. Bolesława Krzywoustego 7, also wholly owned by the Company.

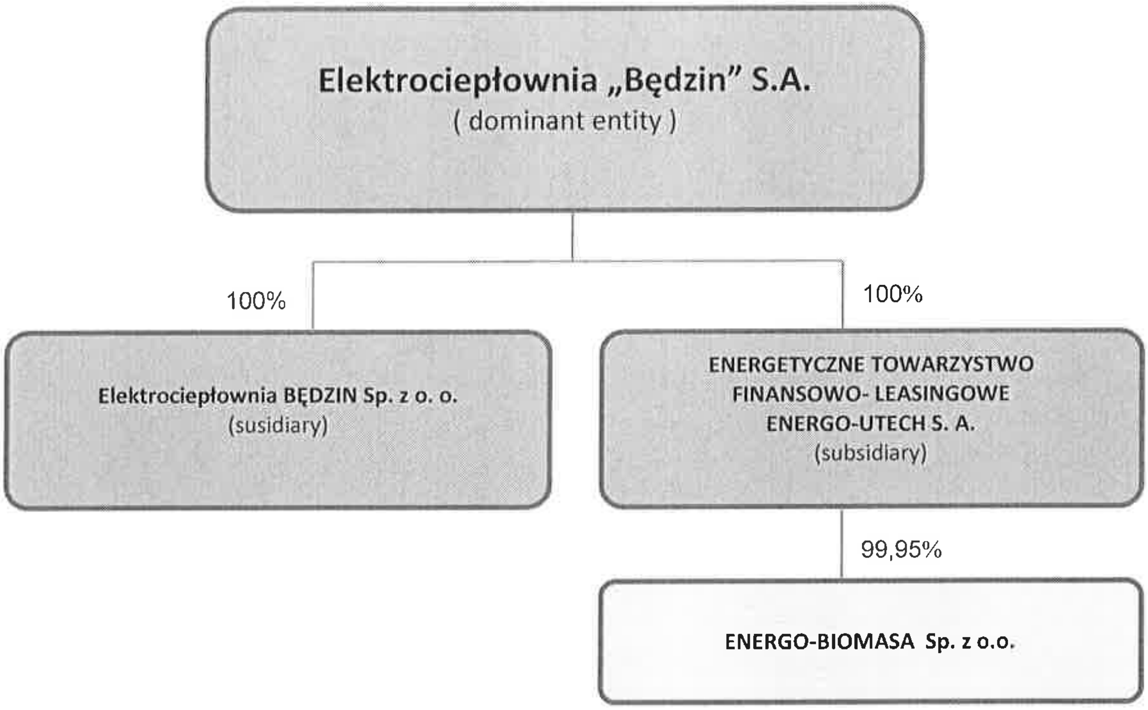
The subsidiary is ENERGO-BIOMASA Sp. z o.o. with the registered office in Suliszewo 97, 78-500 Drawsko Pomorskie, where in 2017, the subsidiary Energetyczne Towarzystwo Finansowo Leasingowe Energo-Utech acquired 99.95% of all shares.

The dominant entity is a holding company. The activity in the field of cogeneration through combined heat and power (CHP) is carried out in the subsidiary, Elektrociepłownia BĘDZIN Sp. z o.o., while the financial services, mainly leasing, is carried out in the subsidiary, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.. In 2016, the Company took actions aimed to commence the activity in the form of lease and rent of machines, equipment and tangible assets.

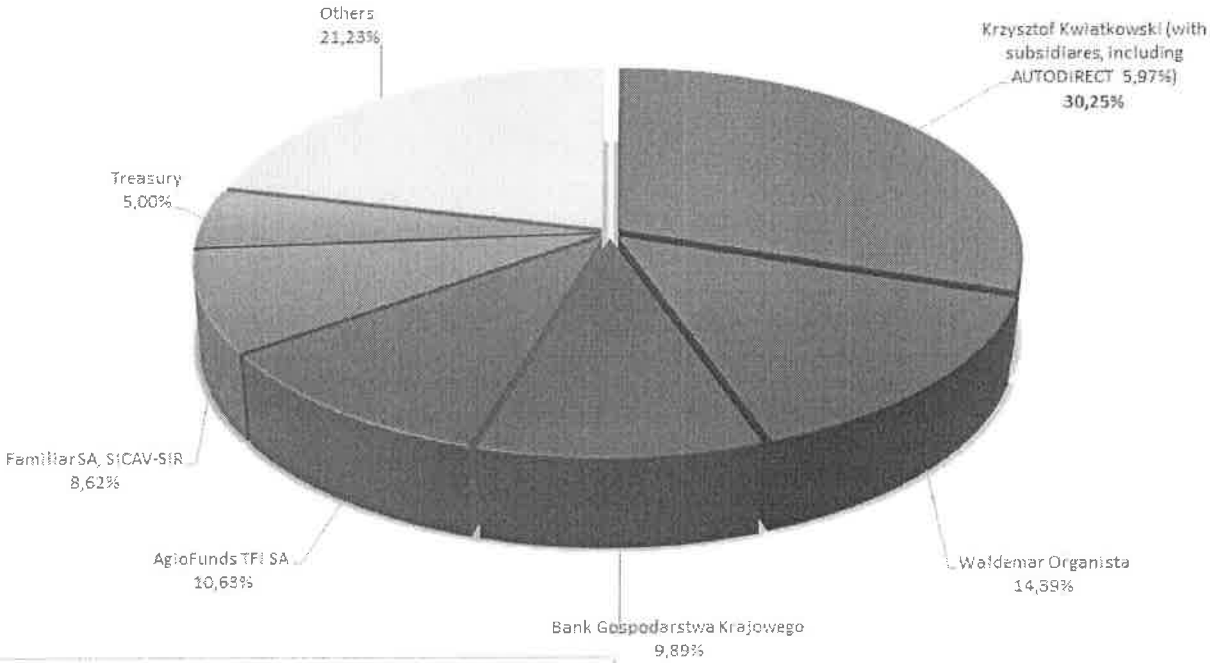
The core business of Elektrociepłownia "Będzin" S.A. Group includes:
- Generation and delivery of steam, hot water and air for air-conditioning systems,
- Generation of electricity,
- Financial lease,
- Other financial services.

As stipulated by art. 55 of the Accounting Act, the Capital Group produces consolidated financial statements of the Capital Group in accordance with the International Financial Reporting Standards approved by the European Union and in accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2014.133, standardised text), based on financial statements of units within the Capital Group.
Pursuant to art. 57(1), subsidiaries are fully consolidated. It means that individual items of financial statements are summed up in full amount and then, mutual transactions made between units of the Capital Group are excluded.

2.1. Ownership structure of Elektrociepłownia "Będzin" S.A. Group



Mix of shareholders of the dominant entity as at 31 December 2017:



*The Ministry of Energy manages the company's shares on behalf of The Treasury

3. Composition of management and supervisory authorities of Elektrociepłownia "Będzin" S.A. Group

3.1. Authorities of Elektrociepłownia "Będzin" S.A. (dominant entity)

Management Board

According to the principles outlined in the Company's Statute, the Management Board is composed of 1 to 5 Members. President and all Members are appointed by the Supervisory Board. The collective term of office of the Management Board is 3 years.
As at 31 December 2017, composition of the Management Board was as follows:

Krzysztof Kwiatkowski – President

Elektrociepłownia "Będzin" S.A. applies corporate governance in compliance with the "Best Practice for GPW Listed Companies 2016". The Declaration on Corporate Governance 2016 represents Appendix 1 hereto.

Supervisory Board

As at 31 December 2017, the Supervisory Board was composed of the following six individuals:

1. Janusz Niedźwiecki - Chairman of the Supervisory Board,
2. Waldemar Organista - Deputy Chairman of the Supervisory Board,
3. Wiesław Glanowski - Member of the Supervisory Board,
4. Mirosław Leń - Member of the Supervisory Board,
5. Wojciech Sobczak - Member of the Supervisory Board,
6. Grzegorz Kwiatkowski - Member of the Supervisory Board,

Audit Committee

The Audit Committee was appointed on 19th of June 2017, and has the following composition:

1. Janusz Niedźwiecki - Chairman of the Audit Committee
2. Waldemar Organista - Member of the Audit Committee
3. Grzegorz Kwiatkowski - Member of the Audit Committee

The Audit Committee was managed by its Chairman - Janusz Niedźwiecki.

3.1. Authorities of Elektrociepłownia BĘDZIN Sp. z o. o. (subsidiary)

Until 18th of June 2017 the Audit Committee was made up of the following members:

1. Janusz Niedźwiecki - Chairman of the Audit Committee
2. Waldemar Organista - Member of the Audit Committee
3. Józef Piętoń - Member of the Audit Committee

3.2. Authorities of Elektrociepłownia BĘDZIN Sp. z o. o. (subsidiary)

Management Board

According to the Company's Management Board Regulations, the Management Board is composed of 1 to 3 Members. President and all Members are appointed by the General Meeting of Shareholders, which also determines the actual number of the Management Board Members. The collective term of office of the Management Board is 3 years.

Throughout the reporting period, the composition of the Management Board did not change and was as follows:

1. Marek Mrówczyński - President of the Management Board,
2. Piotr Kowalczyk - Vice-President of the Management Board.

3.3. Authorities of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. (subsidiary)

Management Board

According to the principles outlined in the Company's Statute, the Management Board is composed of 1 to 4 Members. President and Vice-Presidents of the Management Board are appointed by the General Meeting of Shareholders. The collective term of office of the Management Board is 3 years.

Throughout the reporting period, the composition of the Management Board did not change and was as follows:

1. Krzysztof Kwiatkowski - President of the Management Board,
2. Adam Andrzejewski - Vice-President of the Management Board,
3. Bożena Poznańska - Vice-President of the Management Board.

Supervisory Board

As at 31 December 2017, the Supervisory Board was composed of the following four individuals:

1. Waldemar Organista Deputy- Chairman of the Supervisory Board,
2. Witold Grzybowski Member of the Supervisory Board,
3. Renata Kasprzyk Member of the Supervisory Board,
4. Łukasz Magin Member of the Supervisory Board.

4. Manpower in Elektrociepłownia "Będzin" S.A. Group in the years 2016-2017

4.1. Manpower in Elektrociepłownia "Będzin" S.A. (dominant entity)

Specification	Staff numbers as at 31.12.2017	Staff numbers as at 31.12.2016
Total manpower including:	3	5
Management Board	1	1
Administration	2	4

In 2017, the following personnel changes were noted:

- dismissals and removals – 2 persons on the basis of Article 30 § 1 of the Labour Code – mutual consent.

4.2. Manpower in Elektrociepłownia BĘDZIN Sp. z o.o. (subsidiary)

Specification	Staff numbers as at 31.12.2017	Staff numbers as at 31.12.2016
Total manpower including:	145	141
Management Board	2	2
Administration	31	32
Engineering-technical employees	20	19
Production employees	15	15
Direct production employees	77	73

In 2017, the following personnel changes were noted:

a) employments and appointments – 11 persons under the Labour Code,
b) dismissals and removals – 7 persons, including:
- 4 persons on the basis of Article 30 §1(1) of the Labour Code – mutual consent, retirement,
  1 person on the basis of Article 30 §1(2) of the Labour Code – termination of employment contract by notice,
- 2 person on the basis of Article 63 §1(1b) of the Labour Code – death of an employee.

4.3. Manpower in Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. (subsidiary)

Specification	Staff numbers as at 31.12.2017	Staff numbers as at 31.12.2016
Total manpower including:	19	19
Management Board	3	3
Administration	16	16

In 2017, the following personnel changes were noted:

- employments and appointments – 1 person under the Labour Code,
- dismissals and removals – 1 person under the Labour Code.

4.4. Payroll system in Elektrociepłownia "Będzin" S.A. Group

When determining the remuneration system, the Management Board of Elektrociepłownia Będzin S.A. complies with corporate governance best practice. The Company does not apply any incentive or bonus schemes based on the issuer's equity.

Elektrociepłownia BĘDZIN Sp. z o.o. observes the Remuneration Regulations of 26 October 2015 approved by force of resolution no. 52/2015 of 4 November 2015.

The remuneration policy in Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. is determined by the management board and is built around the two components agreed through individual negotiations – the base salary and the bonus, the latter one depending on the financial performance of the Company. When determining the remuneration system, the Management Board complies with corporate governance best practice of the main shareholder, a public company.

5. Payroll in Elektrociepłownia "Będzin" S.A. Group in 2017

The remuneration and charges applicable in Elektrociepłownia "Będzin" S.A. (the dominant entity) in 2017 with regard to the management authorities.

Remuneration of the Management Board

Item	Name and surname	2017 Gross remuneration In PLN k	2016 Gross remuneration In PLN k
1.	Kwiatkowski Krzysztof	312.0	12.0
	TOTAL	312.0	12.0

Remuneration of the Supervisory Board

Item	Name and surname	2017 Gross remuneration In PLN k	2016 Gross remuneration In PLN k
1.	Niedźwiecki Janusz	51.7	51.7
2.	Organista Waldemar	45.7	45.7
3.	Glanowski Wiesław	45.7	45.7
4.	Piętoń Józef	21.4	45.7
5.	Solarczyk Maciej		22.7
6.	Mirosław Leń	24.3	
7.	Kwiatkowski Grzegorz	45.7	23.6
8.	Węgorkiewicz Maciej	21.4	23.3
9.	Sobczak Wojciech	24.3	-
	TOTAL	**280.2**	**258.4**

The Company does not apply any incentive or bonus schemes based on the issuer's equity.

Average monthly remuneration (excluding remuneration of the Management Board) in the Company in the years 2016-2017

W Spółce nie funkcjonują programy motywacyjne ani premiowe oparte na kapitale emitenta.

Średniomiesięczne wynagrodzenie bez Zarządu w Spółce w latach 2016-2017.

Payroll fund	Average monthly remuneration, excluding remuneration of the Company's Management Board, in PLN/ month	
	2017	2016
Total remuneration	2.76	4.12
Remuneration without severance payment	2.76	4.12
Remuneration without interim payments *	2.76	4.12

** Interim payments cover: jubilee benefits, annual and holiday bonuses retirement and disability severance payments as well as additional severance payments.*

The total value of remuneration, including awards, of the dominant entity's management authorities for the performance of their roles in the authorities of the subsidiaries, was PLN 1326k.

6. Economic and financial standing of Elektrociepłownia "Będzin" S.A. Group

6.1. Economic and financial standing

Specification (in PLN k)	2017	2016
Fixed assets	**494 529**	**524 425**
Current assets, including:	**215 845**	**202 161**
Inventory	20 546	27 027
Short-term receivables	136 809	129 936
Cash and equivalent	30 228	22 216
Equity	**169 694**	**155 739**
Long-term liabilities	317 241	374 313
Short-term liabilities	223 439	196 534
Balance sheet total	**710 374**	**726 586**

Fixed assets change drivers (down by PLN 29,896k):
- reduction in long-term receivables from lease agreements, which exceeded the increase in the value of tangible fixed assets,

Current assets change drivers (up PLN 22,968k) – primarily:
- wzrost należności w segmencie finansowym - Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.

Long-term liabilities change drivers (up PLN 57,072k):
- Decrease in credit liabilities related to financing of the leasing activity of Elektrociepłownia "Będzin" S.A. and Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.

6.2. Financial performance

The table below presents the highlights of consolidated profit and loss account and income statement influencing the financial performance of Elektrociepłownia "Będzin" S.A. Group in 2017 versus comparable data of the previous year.

Specification (in PLN k)	2017	2016
Revenues	204 757	190 469
Other operating revenues	7 448	3 406
Other costs by type	-168 190	-140 329
Value of goods and materials sold	-2 095	-4 401
Other operating expenses	-2 085	-7 733
Profit (loss) on operating activities	39 835	41 412
Financial revenues	1 592	3 902
Financial expenses	-22 182	-20 812
Profits (losses) of subsidiaries accounted for using the equity method	-	-
Profit (loss) on business activities	19 245	24 502
Income tax	- 4 899	-5 043
Net profit (loss)	14 346	19 459

Financial year 2017 was closed by Elektrociepłownia "Będzin" S.A. Group with net profit of PLN 14,346k, encompassing the profit of PLN 14,265k generated by the energy sector and the profit of PLN 81k generated by financial sector.

Change drivers which affected net profit of Elektrociepłownia "Będzin" S.A. Group (decrease by PLN 5,113k):
- Lower sales of factoring in the financial sector,
- Loss on sale suffered by ENERGO BIOMASA Sp. z o.o.

6.3. Liquidity and debt ratios in Elektrociepłownia "Będzin" S.A. Group in 2016-2017

Ratios	2017	2016
Total debt[1]	0.76	0.79
Long-term debt[2]	1.87	2.40
Quick liquidity[3]	0.87	0.89
Current liquidity[4]	0.97	1.03

1. *total liabilities to total assets*
2. *long-term debt to equity*
3. *current assets less inventory to short-term liabilities*
4. *current assets (inventory, receivables and claims, securities held specifically for trading, cash and prepayments) to short-term liabilities*

The liquidity and debt ratios do not differ from the ratios recorded in the previous accounting period.

7. Main risks and threats, characteristics of external and internal factors important for the development of Elektrociepłownia "Będzin" S.A. Group

7.1. Development prospects

The Group's 2015-2017 development strategy was formulated around determination of response to fluctuating market environment and around prediction of events which may have a major impact on the Capital Group and effective management of resources.

The key challenges having an impact on the necessity to implement the Capital Group's development strategy are, among other things, environmental challenges, challenges determined by the heat and electric power market as well as general development goals of the Capital Group.

Within the scope of its development strategy, the Group intends to undertake actions aimed at:
- value increase for stockholders,
- continuation of environment investments securing the production asset operation after 2017,
- investments within the scope of optimisation and increase of effectiveness of the heat and electric power production process in co-generation,
- reduction of the negative impact on the environment of the electric power and heat production process,
- increase of sale volume in the particular operating segments, with concurrent margin build-up,
- development of the product offer in the financial segment, addressed to a corporate client as well as units of the local government, with particular consideration given to investment leasing and accounts receivable purchase,
- establishment of long-term relations with the Clients,

- optimal use of the organisation's potential.

7.2. Risk of competition in the power sector

The heating market in Zagłębie Dąbrowskie (the Dąbrowa Basin) is highly competitive, which stems from the presence of numerous heat generation sources supplying heat to off-takers via TAURON Ciepło Sp. z o.o. heating system running throughout all cities of Zagłębie Dąbrowskie. The main competitor of Elektrociepłownia BĘDZIN Sp. z o.o. on the local market are sources owned by TAURON Wytwarzanie S.A. (Elektrownia Łagisza) and to TAURON Ciepło Sp. z o.o. (ZW Nowa and ZW Katowice), both companies within TAURON Polska Energia S.A. Group.

ZW Katowice has BCF100 heat unit with CFB 134 fluidized bed coal boiler with thermal power of 180 MW and peak water gas oil boilers with installed capacity of 3x38 MW.
Elektrownia Łagisza plans to shut down, as of 1 January 2019, blocks No. 6 and 7 with the total installed thermal power of 306 MW (the achievable thermal power of 279.2 MW). To replace the blocks being shutdown, TAURON Wytwarzanie S.A. plans to invest in Łagisza power plant heat supply by modernizing the 460 MW turbine for heating purposes, constructing a heating station connected to the existing network and building peak-reserve boilers. The investment in block 10 heat supply will provide 150 MW of thermal power. The peak-reserve source will be composed of four identical boilers with thermal power of approximately 36 MWt each with 2 x 2000 m3 oil tanks.

As part of the Low Emission Liquidation Programme until 2022, TAURON Ciepło Sp. z o.o. plans to connect 183 MW of thermal power in eight cities of the Silesian-Dąbrowskie agglomeration covered by low emissions, i.e. in Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice, Siemianowice Śląskie, Sosnowiec and Świętochłowice. In addition, in the years 2018-22, TAURON Ciepło Sp. z o.o. is planning to acquire new customers on this market with the total ordered thermal power of 237 MW. The heating market potential is therefore 420 MW and the gradual connection of new customers can have a positive impact on the volume of contracted power and heat sales in Elektrociepłownia BĘDZIN Sp. z o.o. The alternative may be acquiring by Elektrociepłownia BEDZIN Sp. z o.o. end recipients of heat on the TPA basis or indirect participation in the effects of the Low Emission Liquidation Programme.

A significant element constraining competition on the heating market may be CO_2 emission allowances allocated free of charge to sources supplying heat to Zagłębie Dąbrowskie market as their amount will be insufficient, thus likely to reduce interest in searching for new heat sale markets.

A key element of competitiveness on the heat market of Zagłębie Dąbrowskie is represented by the technical and economic potential to transmit heat. An important role in shaping heat sale markets of individual heat generating entities is played by the main heat distributor, TAURON Ciepło Sp. z o.o. and the fact that the entity is controlled by TAURON Polska Energia S.A. poses a threat to Elektrociepłownia BĘDZIN Sp. z o.o. in the context of power ordered by TAURON Ciepło Sp. z o.o.

7.3. Risk of competition in the financial (leasing) sector

The market of financial services interweaves with the general economic climate and activity of businesses. Even though in the recent years, the growth dynamics of the market on which Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. operates is high and outpaces Poland GDP growth rate, potential fluctuations in the market sentiment must be

taken into consideration as they may lead reduced investments and thus lower investment funding needs.
The leasing industry in which the Company operates is highly competitive. The presence of numerous entities of different size and profile and the potential entry of new entities providing services within Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. area of operations triggers the risk of lower demand for the Company's services.
Nonetheless, the risk is mitigated by specific targeting of the services and by the Company's power sector specialisation and expertise. Given its strategic profile, the power sector will have to invest in development of new capacity and renovation of the existing capacity, regardless the market climate.
The Company's strong market position and efficiency of the adopted business model is reflected in the financial history. For 21 years of its operations, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. has never recorded net loss.

8. Proceedings before court, competent arbitration authority or public administration authority

No court cases, either filed by or against Elektrociepłownia BĘDZIN S.A. (dominant entity) are pending.
No court cases, either filed by or against Elektrociepłownia BĘDZIN Sp. z o.o. (subsidiary) are pending.

On 19 November 2014, Energetyczne Towarzystwo Finansowo- Leasingowe Energo-Utech SA (subsidiary) brought a case for the payment of claim arising from recourse factoring.
On 30 January 2015, order for payment under the writ of payment proceedings was ruled thus obligating the supplier and the debtor to pay to Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech SA the amounts due plus interest accrued by the maturity date. The supplier did not appeal against the aforementioned order for payment and on 11 June 2015, motion for initiation of execution proceedings was filed.
The debtor company has appealed against the order for payment; the court proceedings are pending before the District Court in Poznań. The court proceedings are pending. On 17 May 2017, the District Court in Poznań, 9th Commercial Division, passed a sentence thus dismissing the claim.
On 19 July 2017, Energetyczne Towarzystwo Finansowo – Leasingowe Energo–Utech S.A. appealed against the verdict of the Regional Court in Poznań, 9th Commercial Division of 17 May 2017.
On 2 October 2017, the debtor responded to the aforementioned appeal. At this stage, it is impossible to determine the resolution of the case for the assessment of financial consequences.

9. Information about products generated by or services provided by entities of Elektrociepłownia "Będzin" S.A. Group

The products generated by the Capital Group are heat and electric power.- in Elektrociepłownia BĘDZIN Sp. z o.o. (subsidiary)

The production structure in 2016 and 2017 was as follows:

Production	Unit	2017	2016
Heat in water	GJ	2 395 266	2 102 787
Heat in steam	GJ	297 986	282 934
Electric power	MWh	462 245	465 777

The quantitative sale structure in 2016 and 2017 was as follows:

Sale	Unit	2017	2016
Heat	GJ	2 411 949	2 122 772
Electric power from own production	MWh	391 570	403 670

The second subsidiary – Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. operates as service provider in the financial segment, focusing on the lease of fixed assets and factoring services.

Revenues from services provided by Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A:

Revenues(in PLN k)	2017	2016
Revenues from leasing services	23 935	21 227
Revenues from factoring services	1 337	2 582
Revenues from rental services	5 796	6 063
Revenues from loans provided	1 319	1 653
Other revenues	392	1 694
total	**32 779**	**33 219**

10. Information about main sale markets, supply sources and key customers of Elektrociepłownia "Będzin" S.A. Group

10.1. Sale markets

Elektrociepłownia BĘDZIN S.A. Group is the main source of heat in terms of heating, usable hot water and technological heat within the territory of the Silesian voivodship for Sosnowiec and, partially, Będzin and Czeladź.
The produced electric power is fed to the national power system.

Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. (subsidiary) provides financial services mainly to the electric power sector, as well as, rail and road transportation sector.

10.2. Sources of production input, goods and services

Hard coal

Polska Grupa Górnicza S.A. - I Staszic	157 990.85 Mg	64.20 %
HALDEX S.A.	48 797.46 Mg	19.80 %
Polska Grupa Górnicza S.A. - Sośnica	28 427.56 Mg	11.50 %
B.B-POL	7 829.92 Mg	3.20 %
Polska Grupa Górnicza S.A. - II Staszic	3 232.94 Mg	1.30 %

Water

Rejonowe Przedsiębiorstwo Wodociągów i Kanalizacji w Sosnowcu S.A.	225 544 m^3	100 %

Funding

From the beginning of its operations, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. has been closely cooperating with banks in terms of financing the business activity through loans and credits. As at 31 December 2017, total liabilities arising from said loans and credits were PLN 399.610k.

Main financing banks:

PEKAO S.A.	PLN 213.354 k
ALIOR BANK S.A.	PLN 48.051 k
PKO BP S.A.	PLN 27.554 k

10.3. Main off-takers

Electric power off-takers

TAURON Polska Energia S.A.	289 747.0 MWh	75.50 %
Towarowa Giełda Energia S.A.	94 254.2 MWh	24.50 %

Heat off-takers

TAURON Ciepło Sp. z o.o.	2 357 656 GJ	97.70 %
Wojewódzki Szpital Specjalistyczny nr 5 im. Św. Barbary	40 375 GJ	1.70 %
C.E.W.S. Media Sp. z o.o.	13 918 GJ	0.60 %

Financial service customers

Elbudprojekt sp. z o.o.	11 agreements totalling	PLN 55k
„WARBUS" Sp. z o.o.	8 agreements totalling	PLN 28k
Rail Polska Sp. z o.o.	13 agreements totalling	PLN 25k

11. Informacje Information about valid agreements, significant for the activity of the Group entities in 2017

On 30 September 2014, Elektrociepłownia BĘDZIN Sp. z o.o. signed a contract for the implementation of the following task: "Construction of flue gas desulphurisation and denitrification installation at Elektrociepłownia BĘDZIN Sp. z o.o. "with SBB ENERGY S.A. worth PLN 129,975k
Funds for financing the investment were acquired within the Capital Group by Towarzystwo Finansowo-Leasingowe Energo Utech S.A. from a bank loan.

12. Information about organisational or capital connections of the Capital Group with other entities

In 2017, Mr Krzysztof Kwiatkowski, President of the Management Board of the dominant entity purchased shares of the dominant entity. In effect of the transaction, President of the Management Board of the dominant entity increased his share in the share capital of the dominant entity up to 30.25% (952.499 shares).
In 2017, Mr Waldemar Organisty, Member of the Supervisory Board of the dominant entity purchased and sold shares of the dominant entity. In effect of the transactions, the Member of the Supervisory Board of the dominant entity decreased his share in the share capital of the dominant entity down to 14.39% (453,146 shares).

13. Information about significant non arm's length transactions made by the Capital Group with connected entities

Entities of the Capital Group did not make any non-arm's length transactions with connected entities.

14. Information about signed and terminated agreements on loans and credits

In 2017, 34 credit agreements were signed for the total amount of PLN 92,616k. The agreements were signed, inter alia, with PEKAO S.A. (PLN 38,690k), mBank S.A. (PLN 31,179k), SGB Bank S.A. (PLN 8,600k), BZ WBK S.A (PLN 8,461k) and Alior Bank S.A. (PLN 5,544k).

15. Information about loans provided in the financial year, in particular loans to connected entities

In 2017, the Group entities did not provide any loans either to connected entities or to entities from outside the Group.

16. Information about bonds and warranties provided and received in the financial year, in particular guarantees and suretyships provided to connected entities

On 1 December 2017, Elektrociepłownia BĘDZIN Sp. z o.o. received a performance bond from SBB Energy S.A. for the task "Construction of flue gas desulphurisation and denitrification installation in Elektrociepłownia Będzin Sp. z o.o. ". Pursuant to the terms and conditions of the agreement, security (in the amount of PLN 574.2k) was contributed for stage III liabilities arising from performance bond or warranty. The performance bond remains valid till 8 November 2019.

17. Explanation of differences between financial results presented in the annual report and previously published annual projections

Entities of the Capital Group did not publish any projections of 2017 financial result.

18. Assessment and justification of resources management, in particular the capacity to settle liabilities

Presently, the Group is not exposed to the liquidity risk.
Free cash flows are invested in bank deposits generating additional revenues in the form of interest.

19. Assessment of feasibility of investment plans, including equity investments, in comparison to available funds

Investment activity of Elektrociepłownia "Będzin" S.A. Group in 2017

In 2017, the Group delivered investment tasks in the amount of PLN 29,437k. The delivery of said investment tasks brought the expected technical-business and environmental effects, including:

- recovery of fixed assets,
- optimisation of production costs,
- meeting requirements of the occupational health and safety, environmental protection and fire safety regulations

On 24 October 2017, the final acceptance and takeover of stage III of the "Construction of the flue gas denitrification system OP-140 No. 6" was completed. Stage V of the "Construction of flue gas denitrification system for WP-70 boiler no. 5" is in progress.

On 9 May 2017, Agreement no. 41/EC/2017 was signed with a syndicate of companies consisting of: IP PROINSTAL Sp. z o.o. (syndicate leader), PROXIMA Sp. z o.o. (syndicate member no. 1) and KOMOBEX-INEL Sp. z o.o. (syndicate member no. 2) for the modernization of the water preparation station in Elektrociepłownia BĘDZIN Sp. z o.o., based on project documentation prepared by EKONOMIA Sp. z o.o. in the following industries: technology, construction and engineering, electrical and control and measurement equipment, under the supervision of the documentation contractor.

On 12 May 2017, pursuant to agreements in place, Energetyczne Towarzystwo Finansowo Leasingowe Energo-Utech S.A. acquired shares of ENERGO-BIOMASA Sp. z o.o. As at 31 December 2017, ETF-L Energo-Utech S.A. held 99.95% of shares in ENERGO-BIOMASA Sp. z o.o.

On 13 December 2017, pursuant to agreements in place, Elektrociepłownia "Będzin" S.A. sold 54 shares in ProMobil Fleet Sp. z o.o. representing 40% of all shares.

The dominant entity manages the bond issuance carried out on 13 April 2015 pursuant to article 9(3) of the Act on Bonds of 29 June 1995 (Journal of Laws 2014.730, consolidated text, as amended) of the whole block of 3000 bearer dematerialised bonds, entitling only to cash benefits, said bonds non-secured, with 3Y redemption, unit nominal value of PLN 10k and total nominal value of all bonds of PLN 30,000.00k, however 50 bonds of the total value of PLN 500k were redeemed in 2015. The issue period for the above-mentioned bonds was extended by 1 year and the bonds redemption is scheduled for 10 April 2019. Other terms and conditions of the A-Series Bonds Issue remain unchanged.

Investment activity planned by Elektrociepłownia "Będzin" S.A, Group in 2018

Capital expenditures on investment activity planned by the Capital Group in 2018 include:

- adjustment of the production infrastructure to the governing legal requirements,
- decrease of operating costs,
- increase of reliability of production of electric power and heat.

In 2018, the Group's entity Elektrociepłownia BĘDZIN Sp. z o.o. plans to incur capital expenditures of PLN 7,288k on investments related to adjusting the Company to functioning after year 2018.

In 2018, the following internal investment are planned :

- modernization of K5 water boiler resulting in increase of thermal power by 10 to 15 MWt,
- modernization of 100 Gcal station through the construction of peak exchangers powered with 220 MWt fresh steam - documentation,
- modernization of the injection station - modernization of the superheated steam temperature control installation,
- execution of the operator's layer of the turbine set in DCS Symphony Plus system,
- modernization of the slag control system along with the modernization of the slag system of NC slag settlers,
- replacing the batteries.

On 5 March 2018, final acceptance and takeover of Stage V of the construction of flue gas denitrification system for WP-70 boiler no. 5 is planned.

In 2018, the Group plans to complete the modernization of the water preparation station based on the project documentation prepared by EKONOMIA Sp. z o.o. in the following industries: technology, construction and engineering, electrical and control and measurement equipment in terms of selecting a contractor and delivering the task. Modernization of the station assumes the use of decarbonised river water, as the basic input for the production of demineralized water, which will allow to reduce the operating costs.

Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. does not anticipate any equity investments.

Repair activity of Elektrociepłownia "Będzin" S.A. Group in 2017

In 2017, the value of repair works performed was PLN 12 013k. The works were carried out according to the schedule.

Repairs of main production equipment scheduled for the aforementioned term included, amongst others: medium repairs of turbine set 13UCK80 with the capacity of 81.5 MW and boiler OP-140 no 6 along with electrofilters, as part of the ongoing overhaul of the boiler OP-140 no 7 and boiler WP-70 no 5 together with electrofilters.

Repair activity of Elektrociepłownia "Będzin" S.A. Group planned in 2018

Funds to be allocated to the repair activity in 2018 amount to PLN 10 633k. The planned activity includes on-going and medium repairs of the main production devices in order to ensure their availability in the heating season.

The planned scope of on-going repairs includes an overhaul of the steam boiler OP-140 no. 6 and 7 and turbine set TG-1.

The scope of medium repairs includes an overhaul of water boiler WP-70 no 5. The planned medium repairs of auxiliary devices include performance of repair works on the water and sewage installations, fuel installation, deslagging system, heating system, steam and water boiler mills as well as industrial buildings.

Moreover, the plans envisage performance of necessary maintenance works, on-going repairs and periodical inspections regarding other devices and power installations as well as the amenity buildings and building structures.

In 2018, WP-120 boiler no. 8 will be dismantled.

20. Characteristics of external and internal factors significant to the development of the Capital Group and description of prospects for the development of the Group

The strategic objective of the Capital Group is to ensure stable and safe production of electric power and heat in compliance with the latest environmental requirements, while aiming to increase the value of entities in the Capital Group.

Business activity factors

The strategic objective of entities in the Capital Group is to ensure stable and safe production of electric power and heat in compliance with the latest environmental requirements, as well as, development of the scope of financial services for funding and investment purposes of the electric power industry, with a view to increasing the value of entities in the Capital Group.

Main macroeconomic ratios

The business-financial standing and the activity of Elektrociepłownia "Będzin" S.A. Group is influenced by factors characterising the overall domestic economy as well as business sentiment of areas in which individual companies of the Group operate. The major macroeconomic ratios include the GDP, the industry value added, the domestic demand, the gross expenditures on fixed assets, the sold production of industry, the inflation rate, the nominal value of the average gross wage in enterprise sector, the unemployment rate, the balance of trade and the domestic consumption of electric power.

Political factors

Given the strategic profile of the power sector, its standing can be impacted by decisions of political nature, both at the domestic and the European Union level. The decisions may affect the directions of the power policy, as well as, detailed legal solutions and they may influence the pricing of electric power.

Legal and regulatory environment

The activity of the Capital Group in the power sector is carried out in the environment governed by specific legal regulations at the domestic and the European Union level. Legal regulations are often the outcome of political decisions, hence the risk of frequent fluctuations in that respect, hardly predictable from the Group's perspective. Moreover, gradually tougher environmental requirements may translate into obligatory additional expense going forward.

Activities of the Capital Group companies are regulated by the applicable law, which determines the framework for conducting business activity on the domestic market, including, inter alia, in the area of tax system, employee regulations, competition and consumer protection and environmental protection. Legal requirements applying to environmental protection have become more stringent, which may lead to additional expenses in the future. There is a risk of changes in the aforementioned areas, both in terms of specific legal acts and individual interpretations thereof, which may become a source of potential liabilities of the part of the Capital Group's companies.

The energy sector activity is regulated by the President of the Energy Regulatory Office, as the authority issuing decisions, approving the tariffs and controlling their application. The regulatory and control powers exercised by the President of the Energy Regulatory Office enable the President to influence the operations of both, the companies and the Capital Group in the energy sector.

In effect of enforcement of the Act of 14 March 2014 amending the Energy Law and some other acts (Journal of Laws 2014.490 of 30 April 2014) - in 2017, the Group continued to use the so-called support for electricity produced in high-efficiency cogeneration, such support through obtaining "red certificates".

On 14 August 2017, the President of the Republic of Poland signed amendments to the Act of 20 February 2015 on RES, the aim of which is to introduce a solution that facilitates development in the area of renewable energy sources by changing the unit fee, which is an element making the green certificate market more flexible. In addition, in the long-term perspective, the goal is to reduce the oversupply of certificates.

On 2 August 2017, the President of the Republic of Poland signed the Water Law regulating water management, including the shaping and protection of water resources, water use and management of water resources, the ownership of water and land covered with waters and principles of managing these components in relation to the State Treasury property. The Act removes exemptions from fees for the economic use of water for energy purposes and introduces additional fees in this respect as of 2018.

Investments

The Capital Group operating through its subsidiary, Elektrociepłownia BĘDZIN Sp. z o.o., delivers investments enabling activities which are compliant with environmental requirements and which allow to increase the production of electric power. Said investments include:

- construction of flue gas desulphurisation and denitrogenation installation, which enabled the Company's operations after 1st of January 2016. In 2016, the desulphurisation installation for boilers: OP-140 no. 6, OP-140 no. 7 and WZP-70 no. 5, as well as, flue gas denitrogenation installation for boiler OP-140 no. 7 was taken to operations and in 2017, the flue gas denitrification installation OP-140 No. 6.

Liquidation of low emission in the area which may be supplied with heat from the heating system of Elektrociepłownia BĘDZIN Sp. z o.o.

The Group company Elektrociepłownia Będzin Sp. z o.o. as well as Tauron Ciepło Sp. z o.o. take actions aimed to change the current non-ecological method of heating buildings, by way of connecting them to the heating grid. To achieve the ambitions, on 27 February 2015, the entities signed a marketing agreement amended by annex of 1 June 2015, whereby the growth of capacity resulting from orders related to liquidation of low emission is estimated by the parties at 54 MWt.

New environmental requirements

Directive of the European Parliament and of the Council 2010/75/EU of 24 November 2010 on industrial emissions (IED) introduces new, more conservative environment protection requirements effective as of 1 January 2016.
Given the new environmental requirements, which enable the Company's operations after 1 January 2016, Elektrociepłownia BĘDZIN Sp. z o.o. participates in the Interim National Plan allowing to spread the indispensable investments over time.
Works are pending on implementation of a new reference document (BREF) outlining new, more rigorous environmental requirements. When approved by the European Commission, the

documents will be published and translated into all languages of the European Union. Conclusions on best available technology (BAT) will form the foundation for setting the permit conditions. It means that the permissible emission limit determined in the integrated permits must comply with limits stipulated by the document. In justified cases, following a thorough analysis of costs and advantages, geographical conditions and technical parameters of installation, emission limits varying from the limits stipulated by BAT conclusions, may be set.
On 17 August 2017, the Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 establishing best available techniques (BAT) conclusions, under Directive 2010/75/EU of the European Parliament and of the Council, for large combustion plants, came into effect. Publication of a legally binding document has started a 4-year period for the adaptation of the plants to the requirements set out in the foregoing document. It means that the requirements set out in the BAT conclusions will apply as of 17 August 2021.

Free of charge CO_2 emission allowances

In accordance with the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community, new principles of allocation of free of charge CO_2 emission allowances apply in the settlement period 2013 – 2020.
During that period, the free of charge CO_2 emission allowances were reduced versus the allowances applicable in the period 2005-2012. The number of allocated free of charge CO_2 emission allowances for heat generating installations is reduced every year until 2020, which will be the last year with free of charge allowances.
Throughout 2013-2020, the heat generated by an installation is verified every year. When the generated heat volume significantly decreases, the free of charge allowances applicable goring forward are adjusted.
The allocated free of charge allowances are insufficient to settle the CO_2 emission, which triggers the need to buy additional allowances on the free market.

Electric power prices

The price of electric power is shaped by numerous elements, including, amongst others, market and regulatory factors. It is expected that the main factors influencing the energy prices at the domestic level will include:
- Cost of production fuels,
- Power generated in RES,
- Capital expenditures on modernisation of utilities in the context of environmental requirements,
- Investments in new production capacity and replacement of old, outdated utilities,
- Investments in the transmission system,
- European system of emission trade

Electric power demand

According to the Ministry of Economy, the electric power demand in the forthcoming future will increase in all sectors of the economy. According to projections of the Ministry of Economy presented in the "Updated projections on the demand for fuels and energy by the year 2030", the net production of electric power will grow to 193,3 TWh by 2030. Moreover, in accordance with the "Conclusions from analyses of forecasts on the energy policy of Poland till 2050", the production of electric power is supposed to go up by ca. 40% by 2050, from 158 TWh in 2010 to 223 TWh in 2050.

Long-term development of the power market

On 16 February 2016, the Polish government adopted the "Responsible Development Plan". The document determines the main directions of the state activity and new stimuli ensuring stable development of Poland in the future.
The main assumption behind the foregoing plan is that development of Poland should be based on the following five pillars:
- reindustrialization,
- development of innovative companies,
- capital for development,
- foreign expansion,
- social and regional development.

According to the document's stipulations concerning the energy market, in order to increase energy efficiency and unlock investments after 2020 (including avoiding blackout and ensuring independence from energy import), the state intends to support, amongst others, energy market infrastructure development (e.g., technologies of electric current storage and energy bridges), to unleash market sectors and introduce the power mechanism market that would stimulate investments in the conventional power generation segment.

In 2017, the Electricity Market Act was passed. Capacity auctions will be carried out in the electricity market, in which power suppliers will offer a capacity obligation, i.e. a power supplier's obligation to remain ready, throughout the supply period, to supply specific power to the system by the power market unit and to supply specified power to the system during the periods of emergency. The first auctions are scheduled for 2018and will apply to the delivery period in 2021-2023.

The situation in the domestic hard coal mining sector.

The electricity price path will be highly dependent on the costs of obtaining the production fuel. The situation in the sector and the need to restructure it in the medium-term will undoubtedly translate into a change in the prices of production fuels. The direction of changes in the sector is not unambiguous. In view of the above and due to the fact that the production fuel is the main component of the cost of electricity production, it generates additional risks in the process of concluding contracts for the supply of production fuel, especiallyin the longer horizon.

21. Changes in the main principles of managing the enterprise in the Capital Group's entities

Elektrociepłownia "Będzin" S.A., acting within the Capital Group, exercises permanent corporate governance through the General Meeting of Shareholders of the following associated entities: Elektrociepłownia BĘDZIN Sp. z o.o. and Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A.

Elektrociepłownia "Będzin" S.A. structure includes the Corporate Governance and Investor Relations Department in charge of the Company issues, among others, the Company's obligations stipulated by the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent.

In 2017, no changes occurred in the principles of managing the Group's entities.

22. Agreements between the Group's entities and persons holding managerial positions, providing for compensation in case of their resignation or dismissal from positions without material reasons, or when their removal or dismissal results from the dominant entity's merger through acquisition

According to the Supervisory Board's Resolution, the contract of Elektrociepłownia "Będzin" S.A. (dominant entity) Management Board President does not include the non-competition clauses, neither does it provide for compensation in case of his/ her resignation or dismissal from the position.

Agreements with Members of Elektrociepłownia BĘDZIN Sp. z o.o. Management Board include non-competition clauses stipulating compensation, as applicable.

23. The value of remuneration, awards or benefits, including those resulting from incentive or bonus schemes on the Group's equity

Elektrociepłownia "Będzin" S.A. Group does not apply any incentive or bonus schemes based on the Group's equity.

24. Total number and nominal value of all shares in the Group's parent entity

The share capital of Elektrociepłownia "Będzin" S.A. (dominant entity) totals PLN 15.746k and is divided into 3 149 200 A series ordinary bearer shares, marked with numbers from A00000001 to A03149200, of the nominal value of PLN 5.00 each.

According to information available to Elektrociepłownia "Będzin" S.A. (dominant entity), the shareholders holding over 5% of the share capital and the same % of votes at the annual general meeting are as follows:

Specification	As at 31 December 2017.			
	shares	votes	shares [%]	votes [%]
Krzysztof Kwiatkowski*	952 499	952 499	30,25	30,25
Waldemar Organista	453 146	453 146	14,39	14,39
Agio Funds TFI S. A.	334 747	334 747	10,63	10,63
Bank Gospodarstwa Krajowego	311 355	311 355	9,89	9,89
Familiar S.A. SICAV - SIR	271 526	271 526	8,62	8,62
State Treasury	157 466	157 466	5,00	5,00
Total	2 480 739	2 480 739	78,77	78,77

* with subsidiaries, including Auto Direct S.A., in which the President of the Management Board is Member of the Supervisory Board of Elektrociepłownia "Będzin" S.A. Company - Mr Grzegorz Kwiatkowski

Shareholding of persons holding managerial and supervisory positions.
As at 31 December 2017, persons managing and supervising Elektrociepłownia "Będzin" S.A. hold the following shares or rights thereto:

Specification	As at 31 December 2017.			
	shares	votes	shares [%]	votes [%]
Krzysztof Kwiatkowski*	952 499	952 499	30,25	30,25
Waldemar Organista	453 146	453 146	14,39	14,39
Total	1 405 645	1 405 645	44,63	44,63

* with subsidiaries, including Auto Direct S.A., in which the President of the Management Board is Member of the Supervisory Board of Elektrociepłownia "Będzin" S.A. Company - Mr Grzegorz Kwiatkowski

25. Information about agreements known to the Capital Group (including those entered into after the balance sheet date) whereby the holding of current shareholders and bondholders may change in the future

The Capital Group is not aware of any agreements (including those entered into after the balance sheet date) whereby the holding of current shareholders and bondholders may change in the future.

26. Information about the employee stock ownership plan control systems

No employee stock ownership plans control systems exist in Elektrociepłownia "Będzin" S.A. Group.

27. Information about entity authorised to audit the financial statements of the dominant entity and other entities in the Capital Group

In 2017, pursuant to agreements of 19 June 2017 on examination of consolidated and non-consolidated financial statements and on examination of semi-annual consolidated and non-consolidated financial statements, the entity authorised to examine financial statements was KPMG Audyt Sp. z o.o. Sp. k. with the registered office in Warsaw at ul. Inflancka 4a (National Court Register registration no. KRS 0000339379). The contractual remuneration totalled PLN 169.0k plus VAT.

In 2016, pursuant to agreements on examination consolidated and non-consolidated financial statements and on examination of semi-annual consolidated and non-consolidated financial statements, the entity authorised to examine financial statements was KPMG Audyt Sp. z o.o. Sp. k. with the registered office in Warsaw at ul. Inflancka 4a (National Court Register registration no. KRS 0000339379). The contractual remuneration totalled PLN 159.0k plus VAT.

28. Additional information

28.1. Natural environment issues

Emission of pollution to the atmosphere

The Group's subsidiary, Elektrociepłownia BĘDZIN Sp. z o.o., is a plant generating electric power and heat through power combustion of hard coal. Electric power is produced through highly efficient cogeneration. Hard coal combustion causes gas emission and dust emission to the atmosphere. The emission level depends on both, the quality of the combustion fuel, as well as, efficiency of protection equipment of the installation.

The priority of the Group is to minimise the pollution, hence to minimise the Group's footprint in the natural environment.

Elektrociepłownia BĘDZIN Sp. z o.o. complies with standards, conditions and requirements set in decisions and permits. The subsidiary submits all required reports and settles fees for the use of natural environment for business purposes as scheduled.

In 2016, the flue gas desulphurisation installation was handed over for use thus enabling the Company to meet the emission standards stipulated by the new IED Directive. However, due to participation of Elektrociepłownia BEDZIN Sp. z o.o. in the Interim National Plan, desulphurisation installation operates at the level enabling to meet the limits set forth in the Plan, instead of rigorous requirements stipulated by the Directive.

Trade in emission allowances

In February 2017, the 2016 annual CO_2 emission report was verified.
The verification was carried out by an accredited verifier from TÜV Rheinland Polska Sp. z o.o.
The annual report has been positively evaluated.
In 2017, the 2017 CO_2 emission rights were transferred to the account of Elektrociepłownia BĘDZIN Sp. z o.o. kept in the EU Register.

In 2017, 440 000 EUA allowances were bought, which will allow to settle the 2017 emission.

Integrated permit

The integrated permit specifies all approvals and conditions regarding the entire impact of the installation on the environment (all environmental components) and, concurrently, imposes additional obligations regarding monitoring and reporting the impact on the environment.

Waste management in the Capital Group is conducted within the framework of the Integrated Permit held by Elektrociepłownia BĘDZIN Sp. z o.o. In 2017 there were no deviations from the provisions of the held permit as regards the use of natural environment for the purpose of business activity.

As of 1 January 2016, Elektrociepłownia BĘDZIN Sp. z o.o. holds an amended integrated permit, The last amendment consisted in exclusion of boiler WP-120 no. 8 from exploitation, participation in the Interim National Plan as well as handing over the flue gas desulphurisation installation for use.

Environment protection audits

Between 28 February and 24 March 2017, the Silesian Voivodship Inspectorate for Environmental Protection carried out in Elektrociepłownia BEDZIN Sp. z o.o. the audit of compliance with environmental protection regulations in the area of gas and dust emissions to the air in 2015-2016. No breaches were identified as a result of the inspection.

28.2. Actions towards the local community of Elektrociepłownia "Będzin" S.A. Group, sponsoring and donations

Involvement in the life of the region and actions towards the local community reflect the engagement of Elektrociepłownia "Będzin" S.A. Group in the development of the region and the well-being of its inhabitants.

The Group's entities readily engage in the promotion of art and culture, support educational and scientific initiatives, contribute to the development of physical culture and sports by popularising various sport disciplines. The Capital Group pro-actively responds to the needs of the region and puts forward proposals whereby ideas and projects significantly improving the life of the local community can be supported by way of sponsoring and charity. Said ideas and projects are mostly addressed to communities of the region where the Group operates.

The Group's subsidiary, Elektrociepłownia BĘDZIN Sp. z o.o., a company with impressive tradition, combines the business activity with significant involvement and contribution to its home region. The Company positively responds to the local community needs. For many years, the Company's operations have aimed to develop science, culture and art as well as to support initiatives propagating physical culture and sports.

In 2017, Elektrociepłownia BĘDZIN Sp. z o.o. acted as the sponsor and patron of various local cultural events.

It has been another year when the Company has cooperated with Wyższa Szkoła Biznesu in Dąbrowa Górnicza, whereby it delivers educational, scientific and research-development projects.

An important event for the Company was entering into agreement with Wyższa Szkoła Biznesu in Dąbrowa Górnicza [Business College], whereby educational, scientific and research & development projects will be implemented.

In its support for education, Elektrociepłownia BĘDZIN Sp. z o.o. continued cooperation with Zespół Szkół Specjalnych no. 2 in Sosnowiec [Special School Group] and was again involved in the organisation of the "Regional competition of knowledge about health" and in equipping the IT training room for that school.
Moreover, the Company supported organisation of the Poviat foreign language competition organised by III Liceum Ogólnokształcące in Będzin [high school].

In 2017, Elektrociepłownia BĘDZIN Sp. z o.o. co-organised and sponsored numerous sports initiatives thus supporting, e.g. football club Zagłębie – Sosnowiec, volleyball club MKS Będzin, and marathon event - Wyrski Run.

During the financial year, the Company again co-financed the holiday trip of Children's Home in Sarnowo, supported with financial donations by the Company for over 20 years now.

In its contribution to the regional life, for the 24th time the Company supported organisation of the International Festival of Christmas Carols in Będzin.

In accordance with the adopted marketing policy, Elektrociepłownia BĘDZIN Sp. z o.o. signed annual agreements with Sosnowiec Museum and Zagłębie Museum in Będzin, the latter one supported by the Company in the role of a general sponsor for many years.
Moreover, the Company again participated in Będzin Days and Sosnowiec Days addressed to the local community.

All actions towards the region make the Group entities - Elektrociepłownia BĘDZIN Sp. z o.o. and Energetyczne Towarzystwo Finsnaow Leaisngowe Energo Utech S.A. – perceived as units pro-actively engaged in the life of the region and of the local community.

28.3. Quality assurance system audits

Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. holds the management system certificate PN-EN ISO 9001:2009 issued by the certification unit TUV NORD Polska Sp. z o.o. The certificate registration number: AC090 100/0544/477/2013.
The quality assurance audit took place on 19 September 2017.

28.1. Events after the balance sheet date

No significant events occurred after the balance sheet date that would have a major impact on the current business-financial standing of the Capital Group.

On 18 December 2017, the Company announced the selection of the bidder with whom it will conduct further negotiations in the procedure for the purchase of 100% shares in the subsidiary - Elektrociepłownia Będzin sp. z o.o. The forecasted transaction schedule, taking into account the decision of Tauron Ciepło sp. z o.o. on exercising the pre-emptive right with regard to acquisition of shares in Elektrociepłownia Będzin sp. z o.o. assumes that the transaction would be made in Q1 2019. The transaction is conditional on the successful completion of the due diligence process, obtainment of administrative and corporate consents and the decision of Tauron Ciepło sp. z.o. o. on the pre-emptive rights.

The Management Board of Elektrociepłownia "Będzin" S.A. (dominant entity) hereby presents the Management Board Report on the activity of Elektrociepłownia "Będzin" S.A. Group in 2017 for the purpose of its publication and submission to authorities of Elektrociepłownia "Będzin" S.A. for approval. The Report was prepared based on the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2014.133, standardised text).

Management Board of Elektrociepłownia "Będzin" S.A.

Krzysztof Kwiatkowski
President of the Management Board
Poznań, 27 April 2018

Declaration on Corporate Governance
Appendix 1 to

Management Board Report
on the activity of
of Elektrociepłownia Będzin S.A. Group
in 2017

Elektrociepłownia "Będzin" S.A.
Group

DECLARATION OF CORPORATE GOVERNANCE 2017

In 2017, this Declaration on Corporate Governance in Elektrociepłownia "Będzin" S.A. (ECB SA, the Company) was formulated pursuant to art. 91(5)(4) of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2014.133) and corporate governance principles – the "Best Practice for GPW Listed Companies 2016" ("Best Practice"), adopted by force of Regulation of Giełda Papierów Wartościowych w Warszawie S.A. [Warsaw Stock Exchange] no. 26/1413/2015 dated 13 October 2015, on the basis of the European Commission recommendations of 9 April 2014 on the quality of corporate governance reporting (2014/208/EU).

1. Applicable corporate governance principles

In 2017, the Company was applying the corporate governance principles as outlined in the "Best Practice for GPW Listed Companies 2016" ("Best Practice"), adopted by force of Giełda Papierów Wartościowych w Warszawie S.A. Board regulation no. 26/1413/2015 dated 13 October 2015.
The Company's Management Board acts with due diligence to comply with said Best Practice. The text of the adopted and applicable document is published on the website of Giełda Papierów Wartościowych w Warszawie S.A. at the tab dedicated to corporate governance applying to companies listed on the Warsaw Stock Exchange http://www.gpw.pl while the Company's corporate governance regulations are published on the Company's website at http://ecbedzin.pl and in the Company's annual report.

2. Information about exceptions from the application of corporate governance principles

In 2017, the Company complied with provisions of the "Best Practice for GPW Listed Companies 2016" on information policy and on communication with investors, with the exception of provisions regulating the publication of information referred to in item: *I.Z.1.15. information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website;*
The Company's Supervisory Board Members are appointed in accordance with the Company's Statutes, by the Annual General Meeting of Shareholders, while the Management Board Members by the Company's Supervisory Board. The principles applicable in the Company in this regard do not stipulate any restrictions as to the membership in the management and supervisory bodies of the Company and/ or its subsidiaries and any restrictions as to qualification proceedings, in terms of gender or age.

The Company does not observe the principle set forth in point *I.Z.1.20. an audio or video recording of an Annual General Meeting.* Although, the Company does not exclude the potential application of this rule in the future, should such expectations be explicitly expressed by the Company's shareholders.

The Company observes the Best Practice on prevention of conflict of interest and conclusion of transactions with connected entities in circumstances implying the likelihood of conflict of interest, with the exception of provisions of point *V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may* *arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.*

As regards remuneration, the Company excludes the provisions of item *VI.R.1 The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.*

Remuneration of the Management Board is stipulated by the managerial contract and its amount is agreed through negotiations between the Company's Management Board (one-person body) appointed for the collective term of office and the Supervisory Board appointing the Management Board. The Supervisory Board's remuneration is composed of one element, paid monthly and its amount depends on the role in the Supervisory Board and is pro rata to the number of days spent performing such Supervisory Board role in a calendar month. In 2016, the Company commenced work to develop standardised remuneration policy to apply throughout ECB S.A. Capital Group. At the same time, when fulfilling the information obligations stipulated by the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent, every year the Company publishes in its annual report information about remuneration of the Management Board and the Supervisory Board Members.

3. Characteristics of internal control and risk management systems applied in the Company in terms of financial reporting.

The Management Board is in charge of the internal control system and its efficiency in terms of generation of financial statements and periodical reports. To this end, the Management Board analyses on an ongoing basis the data provided by financial and accounting units and takes relevant decisions and actions, as applicable.

As regards functional control, the Company's standard is that a chartered auditor examines financial statements produced by the Chief Accountant. At this stage, the potential risk is identified and analysed and decisions are taken, as applicable, to eliminate the potential threats.

A financial statement examined by a chartered auditor is presented to the Company's Management Board, which reviews the statement and submits the final version of the document to the Supervisory Board, together with opinion and report of the chartered auditor. The financial statement's examination by the Supervisory Board is preceded by the statement's review performed by the Audit Committee which revises the document and formulates its recommendation to the Company's Supervisory Board.
The Supervisory Board's examination of the financial statement is recorded in minutes and then, the Supervisory Board passes resolution presenting the Supervisory Board's opinion on the analysed financial statement. Minutes from the examination, together with the Supervisory Board's opinion on the analysed financial statement are presented at the Annual General Meeting to the Company's shareholders and serve as the base for taking decision on approval of financial statements for a financial year.

Companies of ECB S.A. Capital Group apply IT and organisational solutions controlling and securing access to the financial-accounting system and ensuring relevant protection and archiving of accounting books. Access to IT systems is restricted through access rights granted to authorised personnel only.

The risk management process implemented by the Company consists in analysis of current situation in terms of macroeconomic, market and financial environment. Relevant units present their assessment of said environment, highlight factors which may impact the Company's financial and economic performance presently or in the future and estimate potential losses vis-à-vis the annual financial result.
Each analysed risk is allocated to one of the adopted categories: market, operational, financial, environmental or other. Each presented threat is subject to individual analysis leading to decision determining the actual threat level – only risks potentially causing losses in excess of the level considered as critical are taken into consideration. For each of said risks, various management actions are designed and implemented in order to eliminate or mitigate the potential loss. The outcomes of procedures applicable in the above area are subject to ongoing monitoring by the Company's Management Board and Supervisory Board.

4. The Company's majority shareholders

As at 31 December 2017, in accordance with information acquired by Elektrociepłownia "Będzin" S.A., shareholders holding blocks of shares in excess of 5% of the share capital and the same percentage of votes at the Annual General Meeting of shareholders included:

Specification	As at 31 December 2017.			
	shares	votes	shares [%]	votes [%]
Krzysztof Kwiatkowski*	952 499	952 499	30,25	30,25
Waldemar Organista	453 146	453 146	14,39	14,39
Agio Funds TFI S. A.	334 747	334 747	10,63	10,63
Bank Gospodarstwa Krajowego	311 355	311 355	9,89	9,89
Familiar S.A. SICAV - SIR	271 526	271 526	8,62	8,62
State Treasury	157 466	157 466	5,00	5,00
Total	2 480 739	2 480 739	78,77	78,77

* with subsidiaries, including Auto Direct S.A., in which the President of the Management Board is Member of the Supervisory Board of Elektrociepłownia "Będzin" S.A. Company - Mr Grzegorz Kwiatkowski

5. Holders of securities exercising special control powers

The Company's shares are ordinary, bearer shares listed on the regulated market at the Warsaw Stock Exchange. The Company's shares are not privileged.

6. Restrictions in exercising voting rights attached to shares

No restrictions in exercising voting rights attached to the Company's shares apply.

7. Restrictions in assignment of rights to the Company's securities

The Company has no knowledge whatsoever on any restrictions in the assignment of rights to the Company's securities.

8. Principles of appointing and dismissing management and supervisory executives and their powers

8.1 Management Board

Principles of appointing and dismissing Members of the Management Board
The Management Board is composed of 1 to 5 Members. The number of the Management Board Members is determined by the Company's Supervisory Board. According to the

principles outlined in the Company's Statute, all Members of the Management Board are appointed by force of the Supervisory Board's Regulation for the collective term of office of 3 years. The Management Board Members may be dismissed or suspended for important reasons by the Supervisory Board in the secret ballot.

Competences of the Management Board
The Management Board manages the Company's issues and represents the Company in all court and out of court cases not restricted by applicable law or the Company's Statute as those within the powers of the Annual General Meeting of Shareholders or the Supervisory Board. Detailed principles of the Management Board operations are presented in the Management Board Terms of Reference adopted by the Management Board and approved by the Supervisory Board.
In accordance with the Company's Statute, all matters beyond the competence of the ordinary management require resolutions of the Management Board, in particular issues listed in the table below:

Table no 2. Competences of the Management Board

Matters requiring the Management Board resolution
1. The Company's organisational regulations, 2. Taking out credits and loans, 3. Granting loan guarantees and tangible security, 4. Adaptation of annual business plan, 5. Any matters which the Management Board needs to refer to the Annual General Meeting or the Supervisory Board.

Raising liabilities and disposition of assets in excess of PLN 200 000 (two hundred thousand Polish zloty) is considered as an action beyond the scope of the ordinary management powers.

8.2 Supervisory Board

Principles of appointing and dismissing Members of the Supervisory Board
The Company's Supervisory Board operates in accordance with principles set forth in the Commercial Companies Code, the Company's Statute and the Supervisory Board Terms of Reference. According to the currently applicable provisions of the Statute, the Annual General Meeting of Shareholders appoints and dismisses members of the Company's Supervisory Board for the term of office of five years. At least two members of the Supervisory Board should meet the criteria of independence from the Company and from entities closely connected with the Company as per *the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC),* with the consideration of the Best Practice. In case of circumstances implying the lack of said independence, the Supervisory Board Member is obligated to report this fact to the Company without unnecessary delay.

Competences of the Supervisory Board
Members of the Company's Supervisory Board execute their rights and perform their duties in person only. The Company's Supervisory Board meets at least once a quarter. The Supervisory Board meeting is convened by its Chairperson or, in case of the Chairperson's absence or in case of the Chairperson's inability to perform the role for other reasons, by the Deputy Chairperson or, further, by a person designated by the Chairperson.

The Company's Supervisory Board adopts resolutions by an absolute majority of votes of the Supervisory Board Members present at the meeting and in the presence of at least half of the Members of the Supervisory Board.
The Company's Supervisory Board performs the ongoing supervision over the Company's operations in all areas of its activity. The powers of the Supervisory Board include in particular the following:

Table no 3. Competences of the Supervisory Board

Matters requiring the Supervisory Board resolution
1. Accepting the rules and regulations of the Management Board of the Company and passing opinions concerning the organizational rules and regulations which describe the organization of business activity of the Company, 2. Accepting the business plan, 3. Adopting the rules of remuneration of the Management Board and the remuneration of Members of the Company's Management Board, 4. Appointing and dismissing Members of Management Board and the whole Management Board in secret ballot, 5. Suspending due to significant reasons one or more Members of the Management Board in secret ballot, 6. Appointing a member or members of the Supervisory Board to perform temporarily the duties of the member of the Management Board of the Company in the event of suspension or dismissal of members of the Management Board or the whole Management Board or when the Management Board is unable to perform its duties due to other reasons, 7. Granting permission for opening branches abroad upon motion of the Management Board, 8. Upon motion of the Management Board, granting members of the Management Board permission to hold posts in the management of other companies which shares or stocks the Company possesses and to receive remuneration for those activities, 9. Selecting a chartered auditor to perform the audit of the financial statements, 10. Assessing the financial statements regarding its compliance with the books and documents and the actual state of affairs, 11. Assessing the report on the Company's activity and the motions of the Management Board concerning the distribution of profits and covering the losses, 12. Submitting a written report on results of activities referred to in item 10 and 11 to the Annual General Meeting, 13. Consent to establishment of a different entity by the Company, to taking over or purchasing shares or stocks of a different company in order to secure the financial credibility of the Company and in the case of bankruptcy, insolvency or settlement proceedings, 14. Determining the way to execute the right to vote at the Annual General Meetings of Shareholders of companies in which the Company holds 50% of shares or stocks, especially in the following matters: a) Changes in the Statute and Articles of Association,

b) Increasing or decreasing the share capital, c) Merger with a different company or transformation, d) Selling the Company shares, e) Selling or renting the enterprise, establishing perpetual usufruct right thereto or disposing of the property. 15. Consent to paying to shareholders an advance payment on account of the anticipated dividend, 16. Consent to issuing securities and bonds other than those set forth in § 23(1)(9), with the exception of checks and bills of exchange, 17. Consent to selling the purchased or acquired shares or stocks in other companies, including the regulations and form of the sale.

The Supervisory Board upon motion of the Management Board makes decisions by resolutions regarding purchase and sale of real estates, perpetual usufruct rights there or holding shares in real estates by the Company, with the exception of real estates, perpetual usufruct rights thereto or shares in real estates purchased and sold by the Company in order to resell it or lease it out or rent it out when performing the Company's activity.

9. Principles of amending the Company's Statute

The Company's Statute may be amended only by force of Resolution adopted by the Annual General Meeting.

10. Governing rules and main powers of the Annual General Meeting, rights of shareholders and their exercising.

Governing rules and powers of the Company's Annual General Meeting are presented in the Company's Statute and in *Regulations of the General Meeting of Shareholders of "Będzin" S.A. Power and Heat Plant*, available at the Company's website at http://www.ecbedzin.pl

Code of conduct of the Annual General Meeting
The Annual General Meeting takes place in the Company's registered office or in any other place indicated by the Company's Management Board, provided that it is located on the territory of the Republic of Poland. The Annual General Meeting is prepared and convened in compliance with principles set forth in the Code of Commercial Companies, the Company's Statute and the Regulations of the General Meeting of Shareholders. The Annual General Meeting is valid regardless the number of shareholders present at the Meeting. The Annual General Meeting can be attended by persons complying with requirements set forth in art. 406^1 to 406^3 of the Code of Commercial Companies or their proxies, Members of the Management Board and Supervisory Board of the Company and all other persons authorised by the AGM.
Rights and obligations of shareholders are regulated by provisions of the Code of Commercial Companies.

Competence of the Annual General Meeting

In accordance with the Company's Statute, the matters listed in the table below require resolutions by the Annual General Meeting.

Table no. 4. Competence of the Annual General Meeting

Matters requiring the Annual General Meeting resolution
1. Review and approval of financial statements for the ended fiscal year, as well as, the report of the Management Board regarding the activity of the Company. 2. Giving the vote of approval to members of the Company's authorities regarding

performance of their duties,
3. Distribution of profits and coverage of losses,
4. Changing the aim of the business activity of the Company,
5. Changing the Statute of the Company,
6. Increasing or decreasing the share capital,
7. Terms and conditions of redemption of shares,
8. Mergers and transformations of the Company,
9. Termination and liquidation of the Company,
10. Issuing convertible bonds or bonds with pre-emptive rights and issuing subscription warrants referred to in art. 453 §2 the Code of Commercial Companies,
11. Selling and renting the company, placing the right to use the company,
12. Raising and cancelling the Company's capital.
13. Any provisions concerning claims for adjustment of damages which occurred upon the establishment of the Company or performing management or supervision duties.

11. Composition, composition changes and operations of the Company's management and supervision authorities and their committees.

11.1 Management Board

The present, ninth term of office of the Management Board has run since 2016. In accordance with the Company's Statute, the term of office runs three years. As at 31 December 2017, the Management Board was composed of Krzysztof Kwiatkowski, President of the Management Board. The composition of the Management Board did not change in 2017.

Management Board code of conduct
The code of conduct of Elektrociepłownia "Będzin" S.A. Management Board is presented in the Company's Statute and in the Management Board Rules and Regulations approved by the Supervisory Board. In accordance with the Company's Statute, the Management Board can be composed of 1 to 5 members. The number of the Management Board members is determined by the Company's Supervisory Board. The collective terms of office of the Management Board is three years. The Company's Supervisory Board appoints and recalls the Management Board's President and other Members of the Management Board. Detailed principles of the Management Board's operations are determined by the Management Board Rules and Regulations adopted by the Management Board and approved by the Company's Supervisory Board resolution.

11.2 Supervisory Board

The present, nineth term of office of the Supervisory Board has run from 19 June 2017. In accordance with the Company's Statute, the term of office runs five years. As at 31 December 2017, the Supervisory Board was composed of the following members:

1. Janusz Niedźwiecki - Chairman of the Supervisory Board
2. Waldemar Organista - Deputy Chairman of the Supervisory Board
3. Wiesław Glanowski - Chairman of the Supervisory Board
4. Mirosław Leń - Chairman of the Supervisory Board
5. Wojciech Sobczak - Chairman of the Supervisory Board
6. Grzegorz Kwiatkowski - Chairman of the Supervisory Board

Supervisory Board code of conduct
The code of conduct of Elektrociepłownia "Będzin" S.A. Supervisory Board is presented in the Company's Statute and in the Management Board Rules and Regulations approved by the Supervisory Board. In accordance with the Company's Statute, the Supervisory Board can be composed of 5 to 6 members. The number of the Supervisory Board members is determined

by the Company's Annual General Meeting. The Company's Supervisory Board appoints and recalls the Management Board's President and other Members of the Management Board. Detailed principles of the Supervisory Board's operations are determined by the Supervisory Board Rules and Regulations.

AUDIT COMMITTEE

The Audit Committee was appointed on 19th of June 2017 and its' composition was as follows:

1. Janusz Niedźwiecki - Chairman of the Audit Committee
2. Waldemar Organista - Member of the Audit Committee
3. Grzegorz Kwiatkowski - Member of the Audit Committee

Until 18th of June 2017, the Audit Committee had the following composition:

1. Janusz Niedźwiecki - Chairman of the Audit Committee
2. Waldemar Organista - Member of the Audit Committee
3. Józef Pietoń - Member of the Audit Committee

In 2017, there were two meetings of the Audit Committee: on 12 January, on 30 March 2017.

The main duties of the Audit Committee included:
1) Monitoring of the Company's financial reporting;
2) Monitoring of internal control systems, internal audit and risk management in the Company;
3) Monitoring of financial revision in the Company;
4) Monitoring of independency of the chartered auditor and the entity authorised to examine the Company's financial statements.

The Audit Committee is the advisory body of the Company's Supervisory Board and provides it with recommendations. In particular, the Audit Committee recommends to the Company's Supervisory Board an entity authorised to audit financial statements and perform the financial revision in the Company. The Company's Supervisory Board may adopt a resolution on extending the scope of the Audit Committee's activity by assigning other areas of activity to the Committee.

Krzysztof Kwiatkowski - President of the Management Board ....

Poznań, 27 April 2018