



# Elektrociepłownia Będzin S.A.

**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 Financial Statements**

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

#### *Responsibility of the Management Board and Supervisory Board of the Entity for the financial statements*

The Management Board of the Entity is responsible for the preparation, on the basis of properly maintained accounting records, of 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 Entity is also responsible for such internal control as the Management Board determines is necessary to enable the preparation of 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 Entity are required to ensure that the financial statements are in compliance with the requirements set forth in the Accounting Act.

#### *Auditor's Responsibility for the audit of the financial statements*

Our responsibility is to express an opinion on these 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 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 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 Entity or on the efficiency or effectiveness with which the Management Board has conducted or will conduct the affairs of the Entity.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Entity's preparation of the 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 Entity'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 Entity, as well as evaluating the overall presentation of the 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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**Key audit matters**

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**Our procedures**

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**Impairment of long-term assets**

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Carrying value of shares in subsidiaries amounted to PLN 130.588 thousand as at 31 December 2017 (PLN 131.247 as at 31 December 2016).

Reference to the financial statements: Introduction to the financial statements Note 3.1.3. "Long-term investments" and Note 4 "Long-term investments" of the Supplementary information to the financial statements.

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The core business activity of the Company's subsidiaries 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 Entity'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 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 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 financial statements of the Entity, 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 Entity 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

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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 financial statements of the Entity, including disclosures of key assumptions, judgements and sensitivities.

*Opinion*

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

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

**Report on other legal and regulatory requirements**

*Report on the Entity's activities*

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

The Management Board of the 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 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 financial statements. Our responsibility was also to

state, if based on our knowledge about the Entity 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 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 financial statements.

Furthermore, based on our knowledge about the Entity 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 Board of the Entity are responsible for preparation of the corporate governance statement in accordance with the applicable laws.

In connection with the audit of the 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 financial statements.

In our opinion the corporate governance statement, which is a separate part of the report on the Entity's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, g, 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 decree, included in the corporate governance statement, in all material respects:

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

#### *Independence and the appointment of the audit firm*

Our opinion on the audit of 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 Entity 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 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*

.....  
*Rafał Wiza*  
*Key Certified Auditor*  
*Registration No. 11995*  
*Limited Liability Partner with power of attorney*

*27 April 2018*

*Signed on the Polish original*

.....  
*Dominik Walawender*  
*Key Certified Auditor*  
*Registration No. 13077*

Poznań, 27 April 2018

Dear Sirs and Madams,  
Dear Shareholders,

I am pleased to present you the fifth report summarizing the economic activity of Elektrociepłownia "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 looking for partners with whom we can carry out 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 owing to the effective cooperation and involvement of the Management Boards of the Group Companies, the support of the Supervisory Board of Elektrociepłownia 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.





**Financial Statements of  
Elektrociepłownia "BĘDZIN" S.A.  
for the accounting year 2017**

Separate annual financial statements

Elektrociepłownia „Będzin” S.A.

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Poznań, 27 April 2018

**Statement of the Management Board on the reliability of the preparation of the financial statements 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 on the entity authorized to audit the  
financial statements**

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.

### 3. INTRODUCTION TO FINANCIAL STATEMENTS OF ELEKTROCIEPŁOWNIA A “BĘDZIN” S.A.

#### 1. General information

Elektrociepłownia “Będzin” S.A. (“Company”).  
ul. Bolesława Krzywoustego 7, 61-144 Poznań

The company operates under no. 0000064511 of the National Court Register. The register court of competent subject matter jurisdiction for the company is Regional Court Katowice-Wschód in Katowice, 8<sup>th</sup> Business Unit of the National Court Register.

The core business of Elektrociepłownia “Będzin” S.A. encompasses:  
- activity of financial holdings  
- lease and rental of other machines and equipment and tangible assets.

Elektrociepłownia “Będzin” S.A. is the dominant entity of Elektrociepłownia “Będzin” S.A. Capital Group. The Group's subsidiaries include:

- Elektrociepłownia BĘDZIN Sp. z o.o. with the registered office in Będzin (42-500) at ul. Małobądzka 141, wholly owned by the company.
- Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. with the registered office in Poznań (61-144), wholly owned by the company.

An indirect subsidiary is ENERGO-BIOMASA spółka z o.o. with the registered office in Suliszewo 97, 78-500 Drawsko Pomorskie, where the company holds 99.95% of shares.

The production activity in the form of cogeneration through combined heat and power is carried out by the subsidiary, namely Elektrociepłownia BĘDZIN Sp. z o.o., while the financial services activity, mainly leasing, is carried out by another subsidiary, namely - Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. ENERGO-BIOMASA sp. z o. o. specialises in the production of wood pellet.

#### Management Board as at 31 December 2017:

Krzysztof Kwiatkowski - President of the Management Board

#### Supervisory Board as at 31 December 2017:

Janusz Niedźwiecki - Chairman of the Supervisory Board Chairman,  
Waldemar Organista - Vice-Chairman of the Supervisory Board,  
Wiesław Głanowski - Member of the Supervisory Board,  
Grzegorz Kwiatkowski - Member of the Supervisory Board,  
Miroslaw Leń - Member of the Supervisory Board,  
Wojciech Sobczak - Member of the Supervisory Board,

#### Audit Committee operating within the Supervisory Board as at 31 December 2017:

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

#### 2. Presentation of financial statements

The company presents financial statements for the period commencing on 1 January 2017 and ending on 31 December 2017, as well as, comparable financial data for the period from 1 January 2016 to 31 December 2016.

The financial statements were produced at the going concern assumption whereby the company will continue its business operations throughout the foreseeable future encompassing period not shorter than one year as of the balance sheet date and the scope of said activity will not be significantly reduced. There are no circumstances whatsoever posing a threat to the continuity.

#### 3. The accounting methods and principles applied

Legal grounds:

- The accounting Act of 29 September 1994 (Journal of Laws 2016.1047, as amended),
- Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and terms for recognizing information required by non-member state laws as equivalent (Journal of Laws 2014.133),
- Regulation of the Minister of Finance of 18 October 2005 on the scope of information disclosed in the financial statements and consolidated financial statements required for the issue prospectus for issuers having their registered office in the Republic of Poland and to which Polish accounting rules apply (Journal of Laws 2014.300).

### 3.1. Balance sheet

#### 3.1.1 Intangible assets

Intangible assets are measured as at the balance sheet date at purchase price reduced by amortisation (amortisation charges) reflecting their wear and tear. When a particular intangible asset ceases to fully or partially bring benefits, however not later than as at the balance sheet date, the company makes an amortisation charge taken to other operating costs. Intangible assets in the form of computer software and licences amortize over the period of two years.

#### 3.1.2 Tangible assets

According to the Accounting Act, the company makes straight line depreciation charges over the foreseeable utilisation period of fixed assets. Fixed assets are amortized as follows:

<b>Fixed assets</b>	<b>Fixed Assets Classification number</b>	<b>Annual depreciation rates in%</b>
- Own plots of land (including perpetual usufruct rights thereto)	0	Non-depreciated
- Tool, equipment, movable assets, fittings and fit-outs	8	10 - 25

Fixed assets with original value up to PLN 3.5k are subject to one-off depreciation effected in a month following the month in which they were handed over for use and they are recognized in the fixed assets records. For the perpetual usufruct rights to land acquired free of charge, the company decided not to depreciate said perpetual usufruct rights to land on the assumption that due to the long usufruct term of 99 years, the value of the land will not be gradually decreasing.

The perpetual usufruct rights to land acquired free of charge are presented in the long-term accruals on the liabilities side of the balance sheet, in accordance with the recommendation presented in communication no. 1/DR/2003 of the Ministry of Finance dated 20 December 2002.

Fixed assets which became economically obsolescent are subject to impairment charge taken to other operating costs. As regards fixed assets which were subject to revaluation since 1 January 1995, potential impairment charges reduce the revaluation difference reflected in the revaluation reserve. The surplus of impairment charge over the revaluation difference will be charged to other operating costs.

#### 3.1.3 Long-term investments

Balance sheet shares are measured at the purchase price adjusted by impairment charges on the value of such shares.

#### 3.1.4 Long-term prepayments and accruals

Deferred income tax assets are measured at the future tax amount deduction due to negative interim differences which, in the future, will translate into reduced income tax base and deductible tax loss calculated using prudential approach. The deferred income tax assets are measured with the consideration of income tax rates applicable in the year when the tax duty arose.

#### 3.1.5 Short-term receivables

Receivables are measured at due payment amounts, in compliance with the prudent valuation principle. The company adjusts the value of receivables by impairment charges on receivables from debtors in liquidation or bankruptcy, those who question the debt or are in arrears as at the balance sheet date if assessment of their business and financial standing indicates that debt repayment is rather unlikely in the nearest future. Impairment charges on receivables are taken either to other operating costs or to financial costs, depending on the type of impaired receivables.

#### 3.1.6 Short-term investments

Cash in hand and at bank is measured at nominal value. Term deposits in bank with maturity shorter than 3 months are measured at nominal value.

#### 3.1.7 Short-term prepayments and accruals

The company makes costs prepayments if they apply to future reporting periods and costs accruals, in the amount reflecting the likely liabilities amount in the current reporting period. The costs prepayments and costs accruals taken to costs of a given reporting period of the company are effected to match the flow of time and the value of benefits settled over time. The time and manner of settlement is justified with the type of settled costs, in compliance with the prudent valuation principle.

#### 3.1.8 Equity

Share capital is recognised in the amount compliant with the company's statute and with the entry to the National Court Register, at nominal value.

Share capital is represented by 3,149,200 A-series shares of the nominal value of PLN 15,746k.

Elektrociepłownia „Będzin” S.A.

Supplementary capital established through allocation of net profit in the amount representing 1/3 of the share capital may be earmarked only to loss covering. Supplementary capital may be decreased or increased only by force of resolutions of the General Meeting of Shareholders, except for increases by the difference resulting from revaluation of disposed fixed assets subject to previous revaluation.

Moreover, the Company may create revaluation reserve through revaluation of long-term investments. The revaluation reserve is increased by amounts arising from valuation of long-term investments and reduced by adjustments arising from previous revaluations and by non-settled valuation differences in case of disposal of assets which were previously subject to revaluation.

The other reserve capitals are elements of the equity raised in accordance with the Company's Statutes.

### 3.1.9 Provisions

Provisions for liabilities are measured at least as at the balance sheet date, at justified, duly estimated value. The company raises provisions for certain or very likely future liabilities the amount of which can be reliably estimated, in particular for costs of services related to a particular reporting period, such services delivered during the next reporting periods and for long-term and short-term employee benefits. The financial implications of raised provisions are taken to operating costs, other operating costs or financial costs, as appropriate, depending on the type of operation triggering the future liabilities.

Valuation of provisions for service anniversary awards, retirement severance payments, disability severance payments, death benefits and unused holiday allowances, is based on the actuarial valuation made by a professional entered to the list of actuaries, member of the Polish Association of Actuaries. The measurements were made using actuarial techniques, in accordance with the International Financial Reporting Standards, IAS 19 in particular.

Deferred income tax provisions are raised in the amount of the future due amount arising from positive temporary differences. Deferred income tax provisions are raised with the consideration of tax rates applicable in the year when tax duty arises.

#### 3.1.10 Long-term liabilities

As at the balance sheet date, there are long-term liabilities to other entities, arising from the issuance of debt securities, as well as, financial liabilities arising from the purchase of shares.

Liabilities arising from the issuance of debt securities are measured at the adjusted purchase price. Financial liabilities are measured upon their entry to accounting books, at the due amount.

#### 3.1.11 Short-term liabilities

Short-term liabilities are measured at least as at the balance sheet date, at the due amount.

The Employee Benefit Fund presented in the short-term liabilities was created in accordance with the Corporate Collective Labour Agreement.

#### 3.1.12 Other prepayments and accruals

The deferred income is recognized in compliance with the prudence principle. In particular, the deferred income is represented by the equivalent of funds (mostly pecuniary assets) received or due from customers for benefits to be delivered during the future reporting periods.

This item also encompasses the perpetual usufruct rights to land acquired free of charge, which are recognized in accordance with the recommendation presented in communication no. 1/DR/2003 of the Ministry of Finance dated 20 December 2002.

## 3.2 Financial result

On 1 January 2017 the company adopted a different approach to preparing the Profit&Loss Account and switched from the calculative method to a comparable one and individual items in the P&L Account have been adjusted accordingly.

The financial result generated in the accounting year is impacted by the income, profits, necessary costs and incurred losses disclosed in line with the matching principle.

Operating income covers recurring income related directly to the core business. In 2017, the company disclosed the sales income in net prices, i.e. market prices reduced by discounts, rabates, reductions and VAT.

The profit (loss) on operating activities is represented by the difference between net income from sales of products, goods and materials, taking into account subsidies, discounts, rabates and other increases or decreases without VAT, other operating income and the value of sold products, goods and materials valued at production costs or purchase prices increased by the total costs of general management, sale of products, goods and materials and other operating costs incurred from the beginning of the accounting year.

The profit (loss) on operating activities is represented by a difference between financial revenues, in particular those arising from dividends (profit sharing), interest, gains on disposal and revaluation of investments other than those referred to in art. 28(1)(1a) of the Accounting Act (AA), surplus of positive foreign exchange differences over the negative ones, and financial expenses, in particular those arising from interest, losses on disposal of investments other than those referred to in art. 28(1)(1a) of the Accounting Act, surplus of negative foreign exchange differences over the positive ones, with the exception of interest, fees and positive and negative foreign exchange differences referred to in art. 28(4) and (8)(2) of the Accounting Act.

## 3.3 Measurement of transactions in foreign currencies

Elektrociepłownia „Będzin” S.A.

Throughout the accounting year, the Company measures business transactions in accordance with the following principles:

- Liabilities arising from the purchase of services – the blended rate announced by the National Bank of Poland on the last business day preceding the invoice issuance date,
- Payment of liabilities abroad – the bank sell rate,
- Advances paid in foreign currency – the bank sell rate applicable as at the advance payment date. When advances are returned – the rate which was applied when paying the advance.

The assets and liabilities as at the balance sheet date are measured at the blended NBP rate.

### **3.4 Financial instruments**

#### **3.4.1 Classification of financial instruments**

Financial instruments are recognized and measured in compliance with Regulation of the Minister of Finance of 12 December 2001 on Detailed Rules For the Recognition, Valuation Methods, the Scope of the Disclosure and Presentation of Financial Instruments (Journal of Laws of 2017.123, as amended). The principles of valuation and recognition of financial assets described in the below note do not apply to the following items excluded from the foregoing Regulation: shares and stocks in subsidiaries, rights and obligations arising from lease and insurance agreement, receivables and liabilities arising from supplies and services and financial instruments issued by the Company and representing its equity instruments.

Financial assets are classified in the following four categories:

- Financial assets held specifically for trading,
- Loans and receivables,
- Held-to-maturity investments,
- Available-for-sale financial assets.

Financial liabilities are classified in the following two categories:

- Financial liabilities held specifically for trading,
- Other financial liabilities.

#### **3.4.2 Recognition and measurement of financial instruments**

Financial assets are booked as at the effective contract date, at purchase price, i.e. the fair value of incurred expense or other assets contributed in return, while financial liabilities at fair value of the received amount or the value of other assets acquired. When measuring the fair value as at that day, the transaction expense incurred by the Company are also taken into consideration.

Financial instruments buy or sell transactions made on the regulated market are booked as at the dates of said transactions.

#### **3.4.3 Financial assets held specifically for trading**

Financial assets held specifically for trading include assets purchased to obtain economic benefits arising from short-term price changes and fluctuations of other market factors or short term of the purchased instrument, as well as, other financial assets regardless of intentions applicable when making the contract, provided they are held within the portfolio of similar financial assets and the said portfolio is very likely to bring the assumed economic benefits within a short period of time.

Derivatives are included in this category as well, unless they are designated by the Company as hedging instruments.

At the time of initial recognition, financial assets held for trading are recognised at fair value, while outcomes of periodical measurement are taken to financial revenues or expenses of the reporting period when the revaluation took place, respectively.

#### **3.4.4 Held-to-maturity investments**

Held-to-maturity investments include financial assets not classified as loans and receivables, with maturity dates fixed in the contracts, which also determine the right to obtain, at the agreed dates, certain economic benefits, such as interest in fixed or determinable amount, on the condition the Company intends and is duly authorised to hold said assets until their maturity.

Held-to-maturity financial assets are measured at amortised cost using the effective interest rate method.

#### **3.4.5 Loans and receivables**

Irrespective of the maturity (payment) date, loans and receivables include financial assets which arise in effect of handing over funds directly to the other party to the contract. Bonds and other debt securities are included in loans and receivables, said bonds and securities acquired directly in return for funds paid to the other party, provided that the contract explicitly stipulates that the disposing party has not lost the control over the handed over financial instruments (repo transaction).

Loans and receivables do not include loans and receivables received or payments made by the Company to acquire equity instruments under new issuances, also when the acquisition is made under the initial public offering or on the primary market and in the case of rights to shares, also on the secondary market.

Loans and receivables are recognized at the adjusted purchase price, determined using the effective interest rate method.

#### **3.4.6 Available-for-sale financial assets**

Financial assets not classified under the aforementioned categories are considered as available-for-sale financial assets.



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Available-for-sale financial assets are measured at fair value while gains or losses arising from periodical measurement are recognized under revaluation reserve. In case of interest-bearing debt securities classified under this category, the interest determined using the effective interest rate method is taken directly to the profit and loss account statement.

Available-for-sale financial assets whose fair value cannot be reliably determined, are measured at purchase price.

#### **3.4.7 Reclassification of financial assets**

Financial assets held specifically for trading are measured at fair value as at the date they are reclassified to another category of financial assets. Fair value as at the reclassification date becomes the newly determined purchase price or the adjusted purchase price, respectively. Gains or losses arising from revaluation of financial assets reclassified to another category, to date recognized as financial revenues or financial expenses, remain in the profit and loss account statement.

Held-to-maturity investments reclassified to the category of available-for-sale financial assets, are measured at fair value as at the reclassification date. The effects of revaluation determined as the difference between the adjusted purchase price recognized in the books and the fair value, are taken to the revaluation reserve.

#### **3.4.8 Financial liabilities**

Financial liabilities held for trading, including derivatives not designated by the Company as hedging instruments, are presented at fair value, while gains or losses arising from their measurement are recognized directly in the profit and loss account statement.

Financial liabilities held for trading also include an obligation to deliver securities and other financial instruments under short selling contracts made by the Company.

Other financial liabilities are measured at adjusted purchase price, determined using the effective interest rate method.

#### **3.4.9 Hedge accounting**

The Company does not apply hedge accounting.

#### **3.4.10 Description of methods and important assumptions applied when determining the fair value of financial assets and financial liabilities measured at fair value**

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### **4. Important court disputes**

No court proceedings initiated by Elektrociepłownia "Będzin" S.A. have been pending.

### **5. Additional information**

*a) information about currency exchange rates applied for converting the financial statement data.*

Balance sheet data in EUR were converted at the blended NBP rate of PLN 4.1709 applicable as at 31 December 2017.

In 2016, balance sheet data in EUR were converted at the blended NBP rate of PLN 4.4240 applicable as at 31 December 2016.

*b) information about dividend*

Elektrociepłownia "Będzin" S.A. did not pay out dividend in 2017.

*c) other explanations*

The Company produces consolidated financial statements in accordance with the International Financial Reporting Standards as the dominant entity of Elektrociepłownia "Będzin" S.A. Capital Group with subsidiaries.

*Indication and explanation of differences in the value of disclosed information between the Polish Accounting Standards and the IAS/IFRS.*

The Company applies the accounting principles in accordance with the Accounting Act of 29 September 1994 (Journal of Laws of 2016.1047, as amended). The Company does not produce non-consolidated financial statements in accordance with the IFRS.

The Company made a preliminary identification of differences between the Polish Accounting Standards applied by the Company and the IFRS guidelines by acting with due diligence based on best knowledge about the applicable standards and their interpretation as well as about accounting principles that would apply if the financial statements were produced in accordance with the IFRS.

The table below presents adjustments that would apply if the accounting principles followed when producing the financial statements were IAS/IFRS. The adjustments arise mainly from revaluation of tangible fixed assets at fair value as at the date of shifting to IFRS and from presentation amendments.

	31 December 2016			31 December 2017		
	Previously applied accounting principles as per Accounting Act	Implications of accounting principles changed to EU IFRS	EU IFRS	Previously applied accounting principles as per Accounting Act	Implications of accounting principles changed to EU IFRS	EU IFRS
<b>ASSETS</b>	<b>157 922</b>	17 593	175 515	<b>156 355</b>	17 409	<b>173 764</b>
<b>Fixed assets</b>	<b>155 351</b>	17 593	172 944	<b>152 991</b>	17 409	<b>170 400</b>
Intangible assets	12		12	25		25
Tangible fixed assets	557	299	856	556	299	855
Long-term receivables	22 365		22 365	20 605		20 605
Long-term investments	131 247	17 356	148 603	130 588	17 356	147 944
Long-term prepayments	1 170	- 62	1 108	1 217	- 246	971
<b>Current assets</b>	<b>2 571</b>		2 571	<b>3 364</b>	-	<b>3 364</b>
Inventory	-		-	-		-
Short-term receivables	1 613		1 613	1 776	-	1 776
- from related parties			-			-
- from other entities	1 613		1 613	1 776		1 776
Receivables from income tax			-			-
Short-term investments	950		950	1 580		1 580
Short-term prepayments	8		8	8		8
<b>LIABILITIES</b>	<b>157 922</b>	<b>17 593</b>	<b>175 515</b>	<b>156 355</b>	<b>17 409</b>	<b>173 764</b>
<b>Equity</b>	<b>91 822</b>	<b>17 655</b>	<b>109 477</b>	<b>92 552</b>	<b>17 655</b>	<b>110 207</b>
Share capital	15 746	21 982	37 728	15 746	21 982	37 728
Supplementary capital	60 493	- 28 762	31 731	60 815	- 28 762	32 053
Revaluation reserve			-			-
Other reserve capital	15 261	-	15 261	15 261	-	15 261
Profit (loss) from previous years	-	24 435	24 757	-	24 435	25 165
Net profit (loss)	322			730		
<b>Liabilities and provisions for liabilities</b>	<b>66 100</b>	<b>- 62</b>	<b>66 038</b>	<b>63 803</b>	<b>- 246</b>	<b>63 557</b>

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<b>Provisions for liabilities</b>	<b>85</b>	<b>- 62</b>	<b>23</b>	<b>335</b>	<b>- 246</b>	<b>89</b>
Provision for deferred income tax	62	- 62	-	246	- 246	-
Provision for retirement and similar benefits	8	-	8	1	-	1
- long-term			-	1		1
- short-term	8		8			-
Other provisions	15	-	15	88	-	88
- long-term			-			-
- short-term	15		15	88		88
<b>Long-term liabilities</b>	<b>62 457</b>	<b>-</b>	<b>62 457</b>	<b>47 319</b>	<b>-</b>	<b>47 319</b>
To related parties	1 000		1 000			-
To other entities	61 457		61 457	47 319		47 319
<b>Short-term liabilities</b>	<b>3 544</b>	<b>-</b>	<b>3 544</b>	<b>16 135</b>	<b>-</b>	<b>16 135</b>
To related parties	930		930	4 296		4 296
To other entities	2 611		2 611	11 836		11 836
Special funds	3		3	3		3
<b>Accruals</b>	<b>14</b>	<b>-</b>	<b>14</b>	<b>14</b>	<b>-</b>	<b>14</b>
Negative goodwill			-			-
Other accruals	14	-	14	14	-	14
long-term	14		14	14		14
short-term			-			-

Elektrociepłownia „Będzin” S.A.

SELECTED FINANCIAL DATA (current year)	In PLN k/ EURk			
	2017	2016	2017	2016
I. Net revenues from sales of products, goods and materials	2 444	2 610	576	596
II. Profit (loss) on operating activities	875	1 488	206	340
III. Gross profit (loss)	867	372	204	85
IV. Net profit (loss)	730	322	172	74
V. Net cash flows from operating activities	3 599	- 17 331	848	- 3 961
VI. Net cash flows from investment activities	3 273	- 416	771	- 95
VII. Net cash flows from financial activities	- 6 242	17 093	- 1 471	3 906
VIII. Total net cash flows	630	- 654	148	- 149
IX. Total assets	156 355	157 922	37 487	35 697
X. Liabilities and provisions for liabilities	63 803	66 100	15 297	14 941
XI. Long-term liabilities	47 319	62 457	11 345	14 118
XII. Short-term liabilities	16 135	3 544	3 868	801
XIII. Equity	92 552	91 822	22 190	20 755
XIV. Share capital	15 746	15 746	3 775	3 559
XV. Number of shares	3 149 200	3 149 200	3 149 200	3 149 200
XVI. Profit (loss) per ordinary share (in PLN/ EURO)	0,23	0,10	0,05	0,02
XVII. Diluted profit (loss) per ordinary share (in PLN/ EURO)	0,23	0,10	0,05	0,02
XVIII. Book value per ordinary share (in PLN/ EURO)	29,39	29,16	7,05	6,59
XIX. Diluted book value per ordinary share (in PLN/ EURO)	29,39	29,16	7,05	6,59
XX. Declared or paid dividend per share (in PLN/ EURO)		-	-	-

Elektrociepłownia „Będzin” S.A.

4. Balance sheet

ASSETS		Note	As at 31.12.2016	As at 31.12.2017
<b>A.</b>	<b>FIXED ASSETS</b>		<b>155 351</b>	<b>152 991</b>
<b>I.</b>	<b>Intangible assets</b>	1	<b>12</b>	<b>25</b>
1.	Other intangible assets		5	25
2.	Advances for intangible assets		7	
<b>II.</b>	<b>Tangible fixed assets</b>	2	<b>557</b>	<b>556</b>
1.	Tangible fixed assets in use		557	556
	a) land (including right to perpetual usufruct)		551	551
	b) other tangible fixed assets		6	5
<b>III.</b>	<b>Long-term receivables</b>	3	<b>22 365</b>	<b>20 605</b>
1.	From other entities		22 365	20 605
<b>IV.</b>	<b>Long-term investments</b>	4	<b>131 247</b>	<b>130 588</b>
1.	Long-term financial assets		131 247	130 588
	a) in related parties		131 247	130 588
	- shares		131 247	130 588
<b>V.</b>	<b>Long-term prepayments</b>	5	<b>1 170</b>	<b>1 217</b>
1.	Deferred tax assets		1 170	1 217
<b>B.</b>	<b>CURRENT ASSETS</b>		<b>2 571</b>	<b>3 364</b>
<b>I.</b>	<b>Short-term receivables</b>	6	<b>1 613</b>	<b>1 776</b>
1.	<i>Receivables from other entities</i>		<i>1 613</i>	<i>1 776</i>
	a) receivables from tax, subsidy, customs, social security and other benefits		5	3
	b) other		1 608	1 773
<b>III.</b>	<b>Short-term investments</b>	7	<b>950</b>	<b>1 580</b>
1.	<i>Short-term financial assets</i>		<i>950</i>	<i>1 580</i>
	a) cash and other pecuniary assets		950	1 580
	- cash in hand and at bank		28	652
	- other cash		922	928
<b>IV.</b>	<b>Short-term prepayments</b>	8	<b>8</b>	<b>8</b>
<b>C.</b>	<b>CALLED UP SHARE CAPITAL</b>		-	-
<b>D.</b>	<b>OWN SHARES</b>		-	-
<b>TOTAL ASSETS</b>				<b>157 922</b>

Elektrociepłownia „Będzin” S.A.

LIABILITIES		Note	As at 31.12.2016	As at 31.12.2017
<b>A.</b>	<b>EQUITY</b>		<b>91 822</b>	<b>92 552</b>
I.	Share capital	9	15 746	15 746
II.	Supplementary capital		60 493	60 815
III.	Other reserve capitals		15 261	15 261
IV.	Net profit (loss)		322	730
<b>B.</b>	<b>LIABILITIES AND PROVISIONS FOR LIABILITIES</b>		<b>66 100</b>	<b>63 803</b>
I.	Provisions for liabilities	10	85	335
1.	Provision for deferred income tax		62	246
2.	Provision for retirement and similar benefits		8	1
	-long-term			1
	-short-term		8	
3.	Other provisions		15	88
	- short-term		15	88
II.	Long-term liabilities	11	62 457	47 319
1.	To related parties		1 000	
2.	To other entities		61 457	47 319
	a) credits and loans		17 190	14 640
	b) arising from issuance of debt securities		29 768	29 879
	c) other		14 499	2 800
III.	Short-term liabilities		3 544	16 135
1.	To related parties	12	930	4 296
	a) other		930	4 296
2.	To other entities	12	2 611	11 836
	a) credits and loans		2 450	2 608
	b) trade liabilities, maturing:		40	57
	- up to 12 months		40	57
	c) tax, customs, insurance and other liabilities		98	125
	d) payroll liabilities		23	17
	e) other			9 029
3.	Special funds		3	3
IV.	Accruals	14	14	14
1.	Other accruals		14	14
	- long-term		14	14
<b>TOTAL LIABILITIES</b>			<b>157 922</b>	<b>156 355</b>

5. Profit and loss account (by function)

Item		For the period		
		Note	01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
<b>A.</b>	<b>Net income from sale and equivalent income, incl.:</b>	15	<b>2 610</b>	<b>2 444</b>
	- from related parties		424	332
I.	net revenues from sales of products		2 290	2 444
	Stock fluctuations (growth – positive value, decline – negative value)		30	
III.	Net income from sale of goods and materials		290	
<b>B.</b>	<b>Operating costs</b>		<b>1 218</b>	<b>1 586</b>
I.	Amortisation/depreciation		19	22
II.	Consumption of materials and energy		-	1
III.	Third party services		437	707
IV.	Taxes and fees/charges		93	40
V.	Remuneration		524	721
VI.	Social insurance and other benefits		73	58
VII.	Other generic costs		22	37
VIII.	Value of goods and materials sold		50	
<b>C.</b>	<b>Gross profit (loss) on sales (A-B)</b>		<b>1 392</b>	<b>858</b>
<b>D.</b>	<b>Other operating revenues</b>		<b>125</b>	<b>53</b>
I.	Other operating revenues		125	53
<b>E.</b>	<b>Other operating costs</b>		<b>29</b>	<b>36</b>
I.	Other operating income		29	36
<b>F.</b>	<b>Profit (loss) on operating activities (C-D-E)</b>		<b>1 488</b>	<b>875</b>
<b>G.</b>	<b>Financial revenues</b>	16	<b>1 553</b>	<b>3 035</b>
I.	Dividend and profit sharing, including:		1 500	2 614
	a) from related parties:		1 500	2 614
	- with exposure in capital		1 500	2 614
II.	Interests		3	9
III.	Profit from outgoing financial assets			213
IV.	Other		50	199
<b>H.</b>	<b>Financial expenses</b>	16	<b>2 669</b>	<b>3 043</b>
I.	Interest, including:		2 669	3 043
	for related parties		32	128
<b>I.</b>	<b>Gross profit (loss) (F+G-H)</b>		<b>372</b>	<b>867</b>
<b>J.</b>	<b>Income tax</b>		<b>50</b>	<b>137</b>
I.	Deferred part		50	137
<b>K.</b>	<b>Other statutory reductions in profit (increases in loss)</b>			
<b>L.</b>	<b>Net profit (loss) (I-J-K)</b>		<b>322</b>	<b>730</b>



6. Cash flows

No.	Item	For the period	
		01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
<b>A. Cash flows from operating activities</b>			
<i>I.</i>	<b>Net profit (loss)</b>	<b>322</b>	<b>730</b>
<i>II.</i>	<b>Total adjustments</b>	<b>- 17 653</b>	<b>2 869</b>
1.	Amortisation and depreciation	19	22
2.	Interest and profit sharing (dividend)	1 156	416
3.	Profit (loss) on investment activities		- 213
4.	Change in provisions	36	250
5.	Change in receivables	- 23 332	1 598
6.	Change in short-term liabilities excluding credits and loans	4 486	844
7.	Change in prepayments and accruals	- 18	- 48
<i>III.</i>	<b>Net cash flows from operating activities (I+II)</b>	<b>- 17 331</b>	<b>3 599</b>
<b>B. Cash flows from investment activities</b>			
<i>I.</i>	<b>Inflows</b>	<b>1 500</b>	<b>3 486</b>
1.	From financial assets, including:	1 500	3 486
a)	In related entities	1 500	3 486
	-From financial assets, including:		872
	-Disposal of intangible and tangible fixed assets	1 500	2 614
<i>II.</i>	<b>Outflows</b>	<b>1 916</b>	<b>213</b>
1.	Purchase of intangible assets and tangible fixed assets		34
2.	For financial assets, including:	1 916	179
a)	in related parties	1 916	179
<i>III.</i>	<b>Net cash flows from investment activities (I-II)</b>	<b>- 416</b>	<b>3 273</b>
<b>C. Cash flows from financial activities</b>			
<i>I.</i>	<b>Inflows</b>	<b>21 640</b>	<b>-</b>
1.	Credits and loans	21 640	
<i>II.</i>	<b>Outflows</b>	<b>4 547</b>	<b>6 242</b>
1.	Repayment of credits and loans	2 000	3 381
2.	Interest	2 547	2 861
<i>III.</i>	<b>Net cash flows from financial activities (I-II)</b>	<b>17 093</b>	<b>- 6 242</b>
<b>D.</b>	<b>Total net cash flows</b>	<b>- 654</b>	<b>630</b>
<b>E.</b>	<b>Balance sheet change in cash, including:</b>	<b>654</b>	<b>630</b>
<b>F.</b>	<b>Cash opening balance</b>	<b>1 604</b>	<b>950</b>
<b>G.</b>	<b>Closing balance of cash (F+D), including:</b>	<b>950</b>	<b>1 580</b>
	- of limited disposability	918	928



Elektrociepłownia „Będzin” S.A.  
9. Statement of changes in equity

No.	Item	Period	
		01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
I.	<b>Equity (opening balance)</b>	<b>91 501</b>	<b>91 822</b>
I.a	<b>Equity (opening balance), after adjustments</b>	<b>91 501</b>	<b>91 822</b>
1.	<b>Opening balance of share capital</b>	<b>15 746</b>	<b>15 746</b>
1.1	<b>Closing balance of share capital</b>	<b>15 746</b>	<b>15 746</b>
2.	<b>Opening balance of supplementary capital</b>	<b>60 346</b>	<b>60 493</b>
2.1	Changes in supplementary capital	148	322
a)	increase	148	322
	- profit sharing	148	322
2.2	<b>Supplementary capital - closing balance, including:</b>	<b>60 493</b>	<b>60 815</b>
3.	<b>Other reserve capitals - opening balance</b>	<b>15 261</b>	<b>15 261</b>
3.1	<b>Other reserve capitals - closing balance</b>	<b>15 261</b>	<b>15 261</b>
4.	<b>Opening balance of profit (loss) carried forward from previous years</b>	<b>148</b>	<b>322</b>
4.1	Opening balance of profit carried forward from previous years	148	322
4.2	Opening balance of profit carried forward from previous years, after adjustments	148	322
a)	decrease	148	322
	- Profit sharing	148	322
5.	<b>Net result</b>	<b>322</b>	<b>730</b>
a)	Net profit	322	730
II.	<b>Equity (closing balance)</b>	<b>91 501</b>	<b>91 822</b>
	<i>Proposed distribution of net profit</i>		
a)	Carried forward to supplementary capital	322	730
III.	<b>Equity, after the proposed distribution of net profit (loss coverage)</b>	<b>91 822</b>	<b>92 552</b>

8. ADDITIONAL INFORMATION AND EXPLANATIONS TO FINANCIAL STATEMENTS OF ELEKTROCIEPŁOWNIA BĘDZIN S.A.

1. Intangible assets

1.1 Changes in the value of intangible assets

Specification	Research and development expenses	Goodwill	Other intangible assets	Advances for intangible assets	Total
<b>Gross value</b>					
closing balance 31.12.2016	-	-	34	7	41
<b>Increases, including:</b>	-	-	41	-	41
- purchase			34		34
- transfers			7		7
<b>Decreases, including:</b>	-	-	-	7	7
- transfer				7	7
closing balance 31.12.2017	-	-	75	-	75
<b>Cancellation</b>					
closing balance 31.12.2016	-	-	29	-	29
<b>Increases, including:</b>	-	-	21	-	21
- amortization/depreciation			21		21
<b>Decreases, including:</b>	-	-	-	-	-
closing balance 31.12.2017	-	-	50	-	50
<b>Impairment charges</b>					
closing balance 31.12.2016					-
closing balance 31.12.2017	-	-	-	-	-
<b>Net value</b>					
closing balance 31.12.2016	-	-	5	7	12
closing balance 31.12.2017	-	-	25	-	25

## 2. Tangible fixed assets

### 2.1 Changes in tangible fixed assets

Specification	Land (including right to perpetual usufruct)	Buildings, premises, civil and water engineering structures	Technical equipment and machines	Vehicles	Other tangible fixed assets	Total
<b>Gross value</b>						
closing balance 31.12.2016	565	-	-	-	9	574
closing balance 31.12.2017	565	-	-	-	9	574
<b>Cancellation</b>						
closing balance 31.12.2016	-	-	-	-	3	3
<b>Increases, including:</b>	-	-	-	-	1	1
- depreciation/amortisation	-	-	-	-	1	1
closing balance 31.12.2017	-	-	-	-	4	4
<b>Impairment charges</b>						
closing balance 31.12.2016	14	-	-	-	-	14
closing balance 31.12.2017	14	-	-	-	-	14
<b>Net value</b>						
closing balance 31.12.2016	551	-	-	-	6	557
closing balance 31.12.2017	551	-	-	-	5	556

### 2.2 Value of land in perpetual usufruct

Specification	Closing balance 31.12.2016		Closing balance 31.12.2017	
	Area in sqm	Gross value	Area in sqm	Gross value
Plot of land in Sosnowiec no. 693	2 520,00	58	2 520,00	58
Plot of land in Wojkowice no. 293/5	6 376,00	140	6 376,00	140
<b>Total</b>	<b>8 896,00</b>	<b>198</b>	<b>8 896,00</b>	<b>198</b>

The value of land in perpetual usufruct is the value determined administratively in order to fix the perpetual usufruct fee. The value of land in perpetual usufruct located in Sosnowiec, due to its classification as wasteland, was subject to impairment charge in the books.

### 2.3 Non-amortized and non-depreciated fixed assets

The Company does not use fixed assets based on lease, rent or other agreements, including operating lease agreements, not presented in the Company's assets.

### 2.4 Tangible fixed assets under construction

The Company does not have any tangible fixed assets under construction.

### 2.5 Collateral established by the Company on assets

On 13 April 2015, the Company issued bonds in accordance with art. 9(3) of the Bonds Act of 29 June 1995.

To secure bondholders claims arising from the said bonds issue, the Company established registered pledge on non-dematerialized, registered shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. The number of pledged shares: A-series shares – 240, B-series shares – 1,000, C-series shares – 1,000 (100% of all shares). The registered pledge secures the secured receivables up to the collateral cap of PLN 37,200.00k.

Elektrociepłownia "Będzin" S.A.

Specification	Balance as at 31.12.2016			Balance as at 31.12.2017		
	Liability amount	Collateral value	Type of assets representing the collateral	Liability amount	Collateral value	Type of assets representing the collateral
Liabilities arising from the issue of securities	29 500	37 200	akcje ENUT	29 500	37 200	ENUT shares
<b>TOTAL</b>	<b>29 500</b>	<b>37 200</b>	<b>X</b>	<b>29 500</b>	<b>37 200</b>	<b>X</b>

### 3. Long-term liabilities

Specification	31.12.2016	31.12.2017
<b>- from other entities:</b>		
rent of premises	22 365	20 605
<b>Total</b>	<b>22 365</b>	<b>20 605</b>

### 4. Long-term investments

#### 4.1 Changes in the balance of long-term investments

Specification	Real property	Intangible assets	Long-term financial assets	Other long-term investments	Total long-term investments
<b>Gross value</b>					
<b>31.12.2016</b>	-	-	<b>131 247</b>	-	<b>131 247</b>
<b>decreases, including:</b>	-	-	<b>659</b>	-	<b>659</b>
- company sale	-	-	659	-	659
<b>31.12.2017</b>	-	-	<b>130 588</b>	-	<b>130 588</b>
<b>Revaluation</b>					
<b>31.12.2016</b>	-	-	-	-	-
<b>31.12.2017</b>	-	-	-	-	-
<b>Net value</b>					
<b>31.12.2016</b>	-	-	<b>131 247</b>	-	<b>131 247</b>
<b>31.12.2017</b>	-	-	<b>130 588</b>	-	<b>130 588</b>

At the end of the current period the unit conducted a long-term investments impairment test. The test covered shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. and shares of Elektrociepłownia Będzin Sp. z o.o. (balance sheet value as at 31 December 2017: PLN 49,600k and PLN 80,988k respectively).

The value of recovered investments was based on the estimated value in use.

Projected future cash flows in Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.. were estimated taking into account detailed financial projections for 2018-2026. The end value was estimated by extrapolating projected free cash flows outside the planned period using the growth rate adequate for a given unit. The valuation includes the average weighted cost of capital of 10.7%. The value in use as at the test date, i.e. 31 December 2017 is PLN 56 570k.

Projected cash flows in Elektrociepłownia Będzin Sp. z o.o. were estimated taking into account detailed financial projections for 2018-2026. The end value was estimated by extrapolating projected free cash flows outside the planned period using the growth rate adequate for a given unit. The valuation includes the average weighted cost of capital of 7.8%. The value in use as at the test date, i.e. 31 December 2017 was PLN 210 317k.

Based on the recoverable value there was no need to make impairment charges.

#### 4.2 Changes in the balance of long-term financial assets in related parties and other entities

Specification	Shares	Other securities	Loans granted	Other long-term financial assets	Total
<b>- in related parties</b>					
<b>Gross value</b>					
closing balance 31.12.2016	131 247	-	-	-	131 247
<b>Increases, including:</b>	<b>659</b>	-	-	-	<b>659</b>
- sale	659	-	-	-	659
<b>closing balance 31.12.2017</b>	<b>130 588</b>	-	-	-	<b>130 588</b>
<b>Impairment charges</b>					
closing balance 31.12.2016	-	-	-	-	-
closing balance 31.12.2017	-	-	-	-	-
<b>Net value</b>					
closing balance 31.12.2016	131 247	-	-	-	131 247
closing balance 31.12.2017	130 588	-	-	-	130 588

#### 4.3 Shares in subsidiaries as at 31.12.2017

Name (registered office)	Impairment charges	Balance sheet value of shares	Share in equity (%)	Share in votes (%)	Share in net profit (loss) (%)	Equity as at the balance sheet date
<b>Gross value of shares measured at purchase price</b>						
1) EC Będzin spółka z o.o.		80 987	100.00	100,00	100.00	138 011
2) Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A.	-	49 600	100.00	100,00	100.00	47 891
<b>TOTAL</b>						
		<b>130 588</b>				

#### 5. Deferred tax assets

Specification	Value of assets as at 31.12.2016	Value of assets as at 31.12.2017	Increase/ decrease of balance
<b>- on events and items taken to financial result of the CURRENT YEAR</b>			
1) provision for examination of financial statements	3	4	1
2) provision for retirement severance payment	2	-	2
3) provision for transfer pricing documentation	-	2	2
4) provision for accrued interests on the loan	-	11	11
5) provision for interests accrued on the cancelled debt takeover	-	2	2
6) provision for costs of consultancy services	-	11	11
7) provision for disability severance payment	-	-	-
8) provision for liabilities arising from interest on bonds	51	73	22
9) provision for annual adjustment of the VAT structure	-	-	-
10) tax loss	1 114	1 114	-
<b>TOTAL</b>	<b>1 170</b>	<b>1 217</b>	<b>47</b>



## 6. Short-term receivables

### 6.1 Age structure of short-term receivables

Specification	Current receivables	Past-due receivables, in days (by maturity dates)				Total
		0-90	90-180	180-360	above 360	
- from other entities:						
Other (net)	1 776	-	-	-	-	1 776

### 6.2 Impairment charges on short-term receivables (including those pursued in court)

As at 31.12.2017, impairment charges on short-term receivables totalled PLN 8k and have not changed versus the balance as at 31.12.2016. They fully applied to receivables arising from supplies and services provided by other entities.

## 7. Cash and equivalents

Cash and other pecuniary assets	Balance as at 31.12.2016	Balance as at 31.12.2017
<b>1. Cash in hand and at bank:</b>	<b>28</b>	<b>647</b>
a) PEKAO SA	25	462
b) ING Bank Śląski	3	185
<b>2. Other cash:</b>	<b>922</b>	<b>933</b>
a) investment account in BPS Brokerage House	918	928
b) PEKAO SA ZFŚS	5	5
<b>3. Total cash presented in cash flows statement</b>	<b>950</b>	<b>1 580</b>

## 8. Prepayments

Prepayments of expenses		Balance as at 31.12.2016	Balance as at 31.12.2017
1.	Domains, websites	1	1
2.	Insurance	7	6
3.	Other		1
<b>Total</b>		<b>8</b>	<b>8</b>

## 9 Equity

### 9.1 Equity structure

Item	Series/ issue Type of shares (stocks)	Type of privilege	Number of shares (stocks)	Value of series/ issue measured at nominal value	Equity coverage	Registration date	Right to dividend (as of)
1	A-series shares	ordinary	3 149 200	15 746	Transformation of legal form	18.02.1998	05.04.1993
<b>Total equity</b>		<b>X</b>	<b>3 149 200</b>	<b>15 746</b>	<b>X</b>	<b>X</b>	<b>X</b>

Shareholder	Number of shares	Value of shares	Shareholding %
Krzysztof Kwiatkowski	952 499	4 762	30.25
Waldemar Organista	453 146	2 266	14.39
Agio Funds TFI SA	334 747	1 674	10.63

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Bank Gospodarstwa Krajowego	311 355	1 557	9.89
Familiar SA, SICAV-SIR	271 526	1 358	8,62
State Treasury	157 466	787	5,00
Other	668 461	3 342	21.22
<b>Total</b>	<b>3 149 200</b>	<b>15 746</b>	<b>100.00</b>

## 9.2 Proposed distribution of profit gained in the accounting year

The Company's Management Board will propose to allocate net profit of PLN 730k to supplementary capital.

## 10. Provisions

### 10.1. Provision for deferred income tax

Event/ item	Provision as at 31.12.2016	Provision as at 31.12.2017	Increase/ decrease of balance
<b>- on events and items taken to financial result of the current year</b>			
1) difference in the balance sheet value and tax value of fixed assets covered by lease agreement	62	246	184
<b>TOTAL</b>	<b>62</b>	<b>246</b>	<b>184</b>

### 10.2 Provision for retirement and similar benefits

Specification	For retirement severance payments	Total
<b>Balance as at 31.12.2017</b>	<b>8</b>	<b>8</b>
Release of provision	7	7
<b>Balance as at 31.12.2017</b>	<b>1</b>	<b>1</b>

### 10.3 Other short-term provisions

Specification	Examination of statements	Transfer prices	Other	Total
<b>Balance as at 31.12.2016</b>	<b>15</b>			<b>15</b>
Increases	19	10	59	88
Utilisation	15			15
<b>Balance as at 31.12.2017</b>	<b>19</b>	<b>10</b>	<b>59</b>	<b>88</b>

## 11. Long-term liabilities

### 11.1 Age structure of long-term liabilities

Specification	Loans and credits	Issue of debt securities	Other	Total
<b>- to related parties:</b>				
<b>closing balance 31.12.2016</b>			<b>1 000</b>	<b>1 000</b>
<b>closing balance 31.12.2017</b>				
<b>- to other entities:</b>				

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<b>closing balance 31.12.2016</b>	<b>17 190</b>	<b>29 768</b>	<b>14 499</b>	<b>62 457</b>
Between 1 and 3 years	5 480	29 879	2 800	38 159
Between 3 and 5 years	5 760	-	-	5 760
Above 5 years	3 400	-	-	3 400
<b>closing balance 31.12.2017</b>	<b>14 640</b>	<b>29 879</b>	<b>2 800</b>	<b>47 319</b>

The item „Other” of PLN 2 800k as at 31 December 2017 covers the deferred part of payment for purchased machines and leased equipment based on the agreement dated 1 October 2015. The payment is due on 31 December 2019.

### 11.2 Long-term liabilities arising from issued debt securities

Debt securities by type	Nominal value	Interest rate and margin	Redemption date	Guarantees/ collateral	Listing market
Bearer bonds	29 500	WIBOR 6M+ marża 4,5%	10.04.2019	To secure the bondholders claims and to meet the purpose of the issue, registered pledge was established on 100% of shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.	Non-listed bonds

### 11.3 Liabilities to state budget or local administration units, arising from acquisition of ownership title to buildings and structures

In 2017 not recorded. In 2016, not recorded, either.

### 12. Short-term liabilities

Specification	31.12.2016	31.12.2017	Current liabilities
<b>to connected entities</b>			
<b>Other</b>	<b>930</b>	<b>4 296</b>	<b>4 296</b>
Other	930	4 296	4 296
<b>Total</b>	<b>930</b>	<b>4 296</b>	<b>4 296</b>
<b>to other entities</b>			
<b>Loans and borrowings</b>	<b>2 450</b>	<b>2 608</b>	<b>2 608</b>
ING SA	2 450	2 608	2 608
<b>Deliveries and services:</b>	<b>40</b>	<b>57</b>	<b>57</b>
- up to 12 months	40	57	57
<b>Taxes, customs and social insurance</b>	<b>98</b>	<b>125</b>	<b>125</b>
PIT/ CIT	4	24	24
ZUS	25	33	33
VAT	69	68	67
<b>Remuneration</b>	<b>23</b>	<b>17</b>	<b>17</b>
remuneration	23	17	17
<b>Other</b>		<b>9 029</b>	<b>9 029</b>
other		9 029	9 029
<b>Total</b>	<b>2 611</b>	<b>11 836</b>	<b>11 836</b>

Other liabilities cover payments to non-connected entities and subsidiary for the purchase of shares of Energetyczne Towarzystwo Finansowo-Energetyczne ENERGO-UTECH SA. (as at 31 December 2016 those liabilities were disclosed in long-term liabilities).

Surplus of short-term liabilities to non-connected entities over the value of non-encumbered short-term assets of the company was PLN 9m as at 31 December 2017. The company will cover the difference with proceeds from dividends from subsidiaries (participation in profit) for the year ending on 31 December in the total amount necessary to cover the liquidity gap. At the same time talks are held to defer the payment date of liabilities.



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### 13. Conditional liabilities

On 22 July 2017, the Company acceded the debt of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. arising from three factoring agreements of 22 July 2016 on the acquisition and financing of leasing receivables, said agreements no.: 879/07/2016, 880/07/2016 and 881/07/2016, whereby PKO BP Faktoring SA with the registered office in Warsaw granted to the Debtor the total financing limit of PLN 20 000 000 (twenty million :Polish zloty), for the term expiring on 21 July 2021. By force of the foregoing agreement, the Party acceding the debt and the Debtor are jointly and severally liable for the debt and the Faktor may claim total or part of the funds from the both parties held liable or from each of the parties separately.

### 14. Accruals

Specification	2017	2016
a) Accrued revenue	14	14
- Long-term	14	14
- Valuation of land in perpetual usufruct	14	14

### 15. Revenues from sales, by type and territory

Revenues from sales (by type of activity)	01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
<b>Revenues from sales of products and services, including:</b>	<b>2 290</b>	<b>2 444</b>
- leasing	1 866	2 112
- services	366	267
- other	58	65
<b>Revenues from sales of goods and materials, including:</b>	<b>290</b>	
- sale of goods	290	
<b><i>In above revenues, sales to related parties:</i></b>	<b>424</b>	<b>332</b>
- sales of services	366	267
- other sales	58	65
<b>TOTAL</b>	<b>2 580</b>	<b>2 444</b>

Revenues from sales (by territory)	01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
<b>Total revenues from sales of products and services, including:</b>	<b>2 320</b>	<b>2 444</b>
domestically	2 320	2 444
export	-	
<b>Total revenues from sales of goods and materials, including:</b>	<b>290</b>	
domestically	290	
export	-	
<b><i>In above revenues, sales to related parties:</i></b>	<b>424</b>	<b>332</b>
1. Revenues from sales of products and services	424	332
domestically	424	332
export	-	
2. Revenues from sales of goods and materials	-	
domestically	-	
export	-	
<b>TOTAL</b>	<b>2 610</b>	<b>2 444</b>

Elektrociepłownia "Będzin" S.A.

#### 16. Financial revenues

Specification		01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
<b>I.</b>	<b>Dividend and profit sharing</b>	<b>1 500</b>	<b>2 614</b>
	dividend	1 500	2 614
	<i>From related parties:</i>		
	ENERGO-UTECH S.A.	1 500	2 614
<b>II.</b>	<b>Interest</b>	<b>3</b>	<b>9</b>
	bank - deposits	3	2
	interests of receivables		7
<b>II.</b>	<b>Profit on the disposal of financial assets</b>		<b>213</b>
	<b>Other</b>	<b>50</b>	<b>199</b>
<b>TOTAL</b>	- early repayment discount	50	199
		<b>1 553</b>	<b>3 035</b>

#### 17. Financial expenses

Specification		01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
<b>I.</b>	<b>Interest</b>	<b>2 669</b>	<b>3 043</b>
	a) interest on bonds	1 965	1 969
	- accrued and paid	1 856	1 858
	- accrued not paid	109	111
	b) interest on bank loans	650	731
	- accrued and paid	650	673
	- accrued not paid		58
	d) interest on outstanding tax and social insurance liabilities	22	
	- accrued and paid	22	
	e) on loan/ debt acquisition agreements	32	128
	- accrued and paid	19	115
	- accrued not paid	13	13
	f) inne		215
	<b>TOTAL</b>	<b>2 669</b>	<b>3 043</b>

#### 18. Reasons behind impairment charges on fixed assets

As at 31 December 2017, the impairment charges on fixed assets were PLN 14k and applied to land (wasteland) in perpetual usufruct.

#### 19. Information about revenues, costs and gains (losses) on activity discontinued in the accounting year or to be discontinued in the next year

In 2017 (and also in 2016), there was no discontinued activity. The Company does not plan to discontinue any activity in the next year.

#### 20. Corporate income tax

##### 20.1 Calculation of corporate income tax

01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
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Balance sheet revenues			
1.	Sales of products and services	2 290	2 444
2.	Sales of goods and materials	290	
3.	Other operating revenues	125	53
4.	Other financial revenues	1 553	2 823
5.	Change in the balance of products	30	

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6.	Sale of non-financial fixed assets		213
<b>Total</b>		<b>4 288</b>	<b>5 533</b>
<b>Revenues increasing tax base</b>			
1.	Rental instalments	2 783	1 608
2.	Company purchase price		659
<b>Total</b>		<b>2 783</b>	<b>2 267</b>
<b>Revenues excluded from tax base</b>			
1.	Dividend	1 500	2 614
2.	Accrued yet not received interest on receivables		9
3.	Release of provision		
4.	Change in the balance of products	30	
5.	Provision for employee benefits	2	
6.	Other		
<b>Total</b>		<b>1 532</b>	<b>2 623</b>
<b>TAXABLE REVENUES</b>		<b>5 539</b>	<b>5 177</b>

<b>Balance sheet expenses</b>			
1.	Core operating expenses	1 218	1 586
2.	Other operating expenses	29	36
3.	Financial activity expenses	2 669	3 043
<b>Total</b>		<b>3 916</b>	<b>4 665</b>
<b>Non tax-deductible costs</b>			
1.	Stationery and office supplies	1	
2.	Property tax (for previous years)	57	
3.	Business entertainment	5	15
4.	Business trips	1	1
5.	Non-obligatory membership fee	5	5
6.	Interest on outstanding tax and social insurance liabilities	22	
7.	Accrued yet not paid interest on bonds	109	111
8.	Provisions raised		101
9.	Donations	11	9
10.	Accrued yet not paid interest on debt acquisition	13	13
11.	Other non tax-deductible costs	8	
12.	Advertisement		1
13.	VAT structure adjustment		2
14.	Interests accrued on loan		58
15.	Staff benefits		4
<b>Total</b>		<b>232</b>	<b>320</b>

<b>Other adjustments of tax deductible costs</b>			
1.	Tax amortization and depreciation of fixed assets	2 150	2 580
2.	Tax deductible costs not presented in books (cost of entering into lease agreement)	957	41
3.	Sale of the Company		659
<b>Total</b>		<b>3 107</b>	<b>3 280</b>
<b>TOTAL TAX-DEDUCTIBLE COSTS</b>		<b>6 791</b>	<b>7 625</b>

<b>Corporate income tax base</b>		<b>- 1 252</b>	<b>- 2 448</b>
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Elektrociepłownia "Będzin" S.A.

## 20.2 Deferred income tax

		01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
<b>Deferred tax and other, including:</b>		<b>50</b>	<b>137</b>
1.	Surtax	-	-
2.	Deferred tax assets	12	47
3.	Provisions for deferred tax assets	62	184
<b>TOTAL INCOME TAX</b>		<b>50</b>	<b>137</b>

## 20.3 Tax losses brought forward to next years

Year	Tax loss amount	Settled		Outstanding settlement	Last year to settle tax loss
		In year	amount		
2013	5 825	2014	2 774	3 051	2018
2015	2 814			2 814	2020
2016	1 252			1 252	2021
2017	2 448			2 448	2022
<b>Total</b>	<b>12 339</b>	<b>x</b>	<b>2 774</b>	<b>9 565</b>	<b>x</b>

## 21. Interest and foreign exchange differences increasing the purchase price of goods or manufacturing costs of products

In 2017, the Company did not record any interest and foreign exchange differences increasing the purchase price of goods or manufacturing costs of products.

## 22. Capital expenditures incurred and planned for the next 12 months of the balance sheet date

Capital expenditures incurred between 1 January 2017 and 31 December 2017 total PLN 34k, of which:  
- IT software PLN34k,

The Company does not plan any capital expenditures for the next 12 months of the balance sheet date:

## 23. Explanations to cash flows statement

Specification		01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
<b>1.</b>	<b>Amortization and depreciation</b>	<b>19</b>	<b>22</b>
	Amortization of intangible assets	17	-20
	Depreciation of fixed assets	2	2
	Software purchase		40
<b>2.</b>	<b>Interest and profit sharing (dividend) include:</b>	<b>1 156</b>	<b>416</b>
	Interest paid on credits	19	114
	Interest paid on loans and leasing	650	673
	Interest on outstanding tax and social insurance liabilities	22	
	Interest on debt securities	1 965	1 969
	Transactional costs of bond issue		
	Dividends received	- 1 500	- 2 614
	Interests on receivables		204
	Interests accrued on loans and leasingdsetki naliczone od kredytów i pożyczek		72
	Interests accrued on credits		-13
	BFG		11
<b>3.</b>	<b>Change in the balance of receivables</b>	<b>- 23 332</b>	<b>1 597</b>

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Round-ups: all amounts expressed in PLN k

01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
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	Change in the balance of short-term receivables resulting from balance sheet	- 1 610	- 163
	Change in the balance of long-term receivables resulting from balance sheet	- 22 365	1 760
	Adjustment by the change in the balance of receivables arising from advances for intangible fixed assets	- 7	
	Adjustment by the change in the balance of receivables arising from advances for tangible fixed assets	650	
<b>5.</b>	<b>Change in the balance of short-term liabilities, except for loans and credits</b>	<b>4 486</b>	<b>844</b>
	Change in the balance of short-term liabilities resulting from balance sheet	6 936	38
	Debt take over		928
	Interests accrued		13
	Discount		- 135
	Adjustment by repaid loan amount	- 2 450	

#### 24. Information about the economic nature and purpose of off-balance sheet agreements entered into by the Company

On 18 December 2017, the company informed about selecting the bidder to continue the negotiations on the purchase of 100% shares of subsidiary Elektrociepłownia Będzin sp. z o. o.. Projected transaction schedule, taking into account the decision of Tauron Ciepło sp. z o. o. to exercise the pre-emptive right to the purchase of shares of Elektrociepłownia Będzin sp. z o. o., assumes that the transaction will be completed in Q1 2019. It depends on successful results of due diligence, issued administrative and corporate permissions and decision of Tauron Ciepło sp. z o. o. to exercise the pre-emptive right.

#### 25. Transactions with related parties

Transactions with related parties were made on the arm's length basis.

Company name	Receivables	Liabilities	Revenues	Expenses
	Balance as at 31.12.2017		Between 01.01.2017 and 31.12.2017	
ETF-L ENERGO-UTECH SA		4 296	168	257
Elektrociepłownia Będzin sp. z o. o.			155	9

#### 26. Manpower

Employee groups		01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
1	Production employees	0	0
2	Non-production employees	6	4
<b>Total</b>		<b>6</b>	<b>4</b>



Elektrociepłownia "Będzin" S.A.

## 27. Remuneration, loans and similar benefits for executives holding positions in management, supervisory or administrative boards and units

Specification	01.01.2016 - 31.12.2016	01.01.2017 - 31.12.2017
1 Management units	12	312
2 Supervisory units	257	280
<b>Total</b>	<b>269</b>	<b>592</b>

As at 31 December 2017, there were no loans and similar benefits for executives holding positions in management, supervisory or administrative boards and units.

## 28. Remuneration of chartered auditor (entity authorised to examine financial statements)

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 32k plus VAT.

In 2016, pursuant to agreements 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.

## 29. Events referring to previous years, presented in the financial statements for the current accounting year

No significant events referring to previous years occurred.

## 30. Events occurring after the balance sheet date, presented in the financial statements

No significant events not presented in the financial statements occurred after the balance sheet date.

## 31. Amendments to accounting principles/ error adjustment

There were no amendments to accounting principles.

## 32. Information about non-consolidated joint enterprises

There were no events of this nature.

## 33. Information about consolidated financial statements

The Company produces consolidated financial statements due to the presence of subsidiaries in the Group. Elektrociepłownia "Będzin" S.A. is the parent entity of the Capital Group.

## 34. Merger of companies

No mergers occurred in the accounting year.

## 35. Continued activity

In introduction to audited financial statements of the Company for the year ending on 31 December 2017, the Management Board informed that the financial statements had been produced at the assumption that the Company would continue business activity for the term not shorter than 12 months as of 31 December 2017 and that there were no circumstances, whatsoever, indicating any threats to said continuation of business activity by the Company.

## 36. Information about financial instruments

Risk management encompasses risk identification and assessment processes as well as risk management procedures. The Company's Management Board determines the general risk management principles and policies on specific risk types.

### **FX risk**

The Company is not exposed to FX risk arising from foreign currency buy and sell transactions as transactions related to the business operations are made on the domestic. The Company has not entered into FX risk hedging transactions.

### **Interest rate risk**

The Company is exposed to the risk of cash flows volatility triggered by floating interest rates on assets and liabilities, as well as to the risk of fair value volatility triggered by fixed interest rate assets and liabilities. The Company mitigates the interest rate risk through:

The reporting period: 01.01.2017 – 31.12.2017

Round-ups: all amounts expressed in PLN k

Elektrociepłownia "Będzin" S.A.

- adequate composition of the mix of floating and fixed interest rate assets and liabilities,
- entering into transactions with financial institutions of high credit rating.

The Company has not applied interest rate risk hedging instruments. As regards interest rates in the forthcoming reporting periods, the Company might be exposed to the interest rate risk triggered by liabilities arising from the issue of debt securities as the Company issued floating interest rate bonds in the total amount of PLN 29.5m.

#### **Credit risk**

The Company is not exposed to the credit risk of financial transactions as it cooperates with financial institutions of high credit rating. According to the Company, a marginal credit risk (a merchant loan) is driven by receivables from supplies and services. The policy of ongoing monitoring of customers applied by the Company and consisting in the assessment of said customers' repayment capacity allows to verify the credit risk in this area, both at the offering stage and at contract delivery stage. The Company revaluates the receivables by applying impairment charges raised for receivables from debtors in liquidation or bankruptcy, those who question the debt or are in arrears as at the balance sheet date if assessment of their business and financial standing indicates that debt repayment is rather unlikely in the nearest future (for more information – see the short term liabilities note and the change in the balance of provisions on short-term receivables note). The aggregated sum of impairment charges on short-term receivables is PLN 8k as at 31 December 2017.

#### **Financial liquidity risk**

The liquidity risk is the risk of difficulties in the Company's fulfilment of obligations triggered by financial liabilities settled through transfer of funds or other pecuniary assets. The Company manages its liquidity by ensuring by all means the liquidity sufficient to settle due and payable liabilities, both in standard and crisis scenario, without exposing itself to the risk of unacceptable losses or reputational risk. To this end, the Company monitors the cash flows, maintain valid credit lines and ensures funds in the amount sufficient to cover the anticipated operating and capital expenses, as well as, current financial liabilities. Moreover, it meets the assumed liquidity ratios **Ryzyko cenowe**

Odpowiednia polityka, struktura organizacyjna i procedury oraz działania związane z zarządzaniem ryzykiem wspierają proces negocjowania i ustalania cen produktów Spółki na poziomie optymalnym.

#### **Pricing risk**

Relevant pricing policy, organisational structure and procedures, as well as risk management actions support the process of negotiating and fixing prices for the Company's products at the optimum level.

#### **Fair value change risk**

The Company is not significantly exposed to the risk of floating fair value of available-for-sale financial assets because the amount of available-for-sale financial assets was PLN 0k.

#### **Capital risk management**

The purpose of the capital risk management is to maintain the ability to continue business operations by the Company so that to ensure benefits to the shareholders and to other stakeholders and to maintain the optimum capital structure.

### **37. Other relevant information facilitating the assessment of the Company**

#### **Information about interest rate risk**

##### **Profile of financial instruments**

CLASSIFICATION OF FINANCIAL INSTRUMENTS	BALANCE SHEET VALUE	TERMS AND CONDITIONS DETERMINING THE FUTURE CASH FLOWS
<b>Financial assets</b>	<b>1 580</b>	
Cash	1 580	
Issue of debt securities	29 879	Interest rate at 6M WIBOR 6M plus margin of 4.5 p.p. Maturity date scheduled for 10 April 2019
Investment loan	17 190	Interest rate at 1M WIBOR plus margin of 2.3p.p. Maturity date scheduled for 20 February 2023
Debt acquisition	565	Interest rate at 6% per annum Maturity date scheduled for 30 June 2018
Purchase of shares of a subsidiary	2 790	Interest rate at 4%

The reporting period: 01.01.2017 – 31.12.2017  
Round-ups: all amounts expressed in PLN k

Debt acquisition	928	per annum Maturity date scheduled for 30 June 2018  Interest rate at WIBOR 1M plus margin of 3p.p. p.a. Maturity date scheduled for 30 June 2018
Leasing receivables	22 365	Interest rate at IRR of 0.7570% Maturity date scheduled for 20 October 2025
Purchase of shares of a subsidiary	9 029	Interest rate at 3% per annum Maturity date scheduled for 30 June 2018

As at the balance sheet date, the portfolio of financial assets and debt financial instruments is as follows:

FIXED INTEREST RATE FINANCIAL INSTRUMENTS	BALANCE SHEET VALUE AS AT 31 DECEMBER 2017	BALANCE SHEET VALUE AS AT 31 DECEMBER 2016
Financial assets	1 580	950
Liabilities due to the purchase of shares	11 819	11 999
Liabilities due to debt acquisition	1 493	930

FLOATING INTEREST RATE FINANCIAL INSTRUMENTS	BALANCE SHEET VALUE AS AT 31 DECEMBER 2017	BALANCE SHEET VALUE AS AT 31 DECEMBER 2016
Leasing receivables	22 365	23 973
Financial liabilities arising from issue of debt securities	29 879	29 768
Credit liabilities	17 190	19 640

#### Information about credit risk

The Company's maximum exposure to credit risk is represented by the balance sheet value of the following financial assets:

FINANCIAL ASSETS	BALANCE SHEET VALUE AS AT 31 DECEMBER 2017	BALANCE SHEET VALUE AS AT 31 DECEMBER 2016
Leasing receivables	22 365	23 973
Cash	1 580	950
<b>Total</b>	<b>23 945</b>	<b>24 923</b>

There is a concentration of credit risk in connection with concluding a lease agreement with a subsidiary from the Tauron SA group.

FINANCIAL LIABILITIES	BALANCE SHEET VALUE AS AT 31 DECEMBER 2017	BALANCE SHEET VALUE AS AT 31 DECEMBER 2016
Financial liabilities arising from issue of debt securities	29 879	29 768
Credit liabilities	17 190	19 640
Debt acquisition liabilities	1 493	930
Liabilities due to the purchase of shares	11 819	11 999
<b>Total</b>	<b>60 381</b>	<b>62 337</b>



SA - R - 2017  
Annual non-consolidated financial statements

Elektrociepłownia "Będzin" S.A.

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

Bożena Poznańska                              - Author of financial statements                              .....

Poznań, 20 April 2018

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**Management Board Report on  
Elektrociepłownia Będzin S.A.  
on the Company's activity in 2017.**

**Elektrociepłownia „Będzin” S.A.**



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## I INTRODUCTION

The Management Board of Elektrociepłownia Będzin S.A. hereby presents the Management Board Report on the Company's Activity the accounting year 2016/17 prepared on the basis of the Accounting Law (Journal of Laws of 2016, item 1047, as amended on 29 September 1994) and 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, as amended).

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.

On 4 August 2014, the Company and the subsidiary, namely Elektrociepłownia BĘDZIN p. z o.o. entered into agreement on the assignment of ownership title to the enterprise, whereby the Company transferred the ownership rights to the Company's enterprise onto the subsidiary Elektrociepłownia BĘDZIN Sp. z o.o. as per art. 55<sup>1</sup> of the Civil Code.

In exchange for the contribution of the organised part of the enterprise Elektrociepłownia Będzin S.A. acquired 100% of shares in the subsidiary, i.e. Elektrociepłownia BĘDZIN Sp. z o.o. of the nominal value of PLN 76,820k. The shareholding value results from the net book value of contributed assets totalling PLN 80,987k as at 31 December 2014.

On 27 February 2015 the Supervisory Board of Elektrociepłownia "Będzin" S.A. passed the resolution on agreeing to purchase 100% shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. and the ownership rights to Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. were transferred onto Elektrociepłownia "Będzin" S.A. on 15 April 2015.

The aforementioned transaction led to the Company's becoming the sole owner holding 100%, i.e. 2,240 share of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. The purchase of the shares was financed with the Company's own funds raised through, amongst others, the issue of bonds. The final tranche of the payment for the foregoing shares, of PLN 11,819.00k, as stated in the agreements, is scheduled to mature on 30 June 2018. The main reasons behind the acquisition of shares in Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. include the establishment of the Capital Group in accordance with strategic assumptions and diversification of income sources.

In 2017, Energetyczne Towarzystwo Finansowo Leasingowe Energo-Utech S.A. acquired shares in ENERGO-BIOMASA Sp. z o.o. As at the end of 2017, ETF-L Energo-Utech S.A. held 99.95% shares in ENERGO BIOMASA Sp. z o.o.

As a consequence of the above transactions, the Company remains 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.

Principles of preparing the 2017 financial statements are included in the introduction to the financial statements.

## II CORE INFORMATION ABOUT THE COMPANY

### 1. Core data

Since 1998, the Company's shares have been quoted at Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).

The Company's share capital amounts to PLN 15 746 000 and is divided into 3 149 200 A series shares of the nominal value of PLN 5 each.

The activity of Elektrociepłownia "Będzin" S.A. is regulated by the Company's Statute and by the Commercial Companies Code.

<b>Company name:</b>	<b>Elektrociepłownia "Będzin" Spółka Akcyjna</b> The Company has the right to use an abbreviated name: <b>Elektrociepłownia "Będzin" S.A.</b>
Legal form:	Joint-stock company
Registration country:	Poland
Registered office:	Poznań
Address:	61-144 Poznań, ul. Bolesława Krzywoustego 7
Telephone:	(48 61) 227 57 10-11
Fax:	(48 61) 227 57 12
e-mail:	<a href="mailto:ecbedzin@ecb.com.pl">ecbedzin@ecb.com.pl</a>
Website:	<a href="http://www.ecbedzin.pl">www.ecbedzin.pl</a>
REGON (statistical company registration number)	271740563
NIP (taxpayer identification number):	PL 625-000-76-15
KRS (National Court Register registration number)	0000064511

According to the Statute and the entry in the National Court Register, the core activity of Elektrociepłownia Będzin S.A. is:

- the activity of financial holding companies,
- lease and rent of other machines, equipment and tangible assets.



## 2. Company authorities

### 2.1 Management Board

As of 3 November 2014 Elektrociepłownia "Będzin" S.A. has been managed by sole member of the Management Board, Krzysztof Kwiatkowski - President of the Management Board.

### 2.2 Supervisory Board

As at 31 December 2017, the Supervisory Board of the eighth term of office was composed of the following 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

### 2.3 Audit Committee

As at 2017 year end, the composition of the Audit Committee 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.

The Audit Committee is an advisory body of the Supervisory Board, to which it presents its recommendations. In particular, the Audit Committee recommends to the Supervisory Board an entity authorised to examine the financial statements and to perform financial audit of the Company's financial statements.

### 3. Securities of the Company listed on the stock market

The price of Elektrociepłownia "Będzin" S.A. shares recorded at Warsaw Stock Exchange in 2017 is presented in the chart below.



### 4. Intangible assets

#### 4.1 Manpower

Item	As at 31.12.2017 in FTEs	As at 31.12.2016 in FTEs
Total manpower	3	5
including:		
Management Board	1	1
Administration	2	4

#### 4.2 Personnel changes in 2017

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.



#### 4.3 Payroll system in the Company

The Company complies with the commonly applicable remuneration regulations.

#### 4.4 Average monthly remuneration, excluding remuneration of the Company's Management Board in the years 2016-2017

Payroll fund	Average monthly remuneration, excluding remuneration of the Company's Management Board in PLN/ month	
	2017	2016
Total remuneration	2.967,74	4 117,48
Remuneration without severance payment	2.967,74	4 117,48
Remuneration without interim payments *	2.967,74	4 117,48

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

### III ECONOMIC AND FINANCIAL HIGHLIGHTS

#### Selected balance sheet items

Specification	(in PLNk)	
	2017	2016
Total assets	156 355	157 922
Current assets	3 364	2 571
Inventory	0	0
Short-term receivables	1 776	1 613
Funds	1 580	950
Short-term accrued expenses	8	8
Equity capital	92 552	91 822
Provisions for liabilities	335	85
Long-term liabilities	47 319	62 457
Short-term liabilities	16 135	3 544
Accruals and deferred income	14	14

Ratios	2017	2016
Total debt ratio <sup>1</sup>	0.41	0.42
HCR Liquidity ratio - quick <sup>2</sup>	0.21	0.73
CR Liquidity ratio- current <sup>3</sup>	0.21	0.73

<sup>1</sup> total liabilities to total assets

<sup>2</sup> current assets less inventory to short-term liabilities

<sup>3</sup> current assets (inventory, receivables and claims, securities held specifically for trading, cash and prepayments) to short-term liabilities

#### The structure of costs by type

The structure of costs by type is presented in the following table.

Specification	(in PLNk)			
	Performance I-XII 2017	Cost structure in% I-XII 2017	Performance I-XII 2016	Cost structure in % I-XII 2016
Amortization and depreciation	22	1.4	19	1.5
Consumption of materials and energy	1	0.0	0	
External services	707	44.5	437	35.9

Taxes and charges	40	2.5	93	7.7
Payroll	721	45.5	524	43.1
Social security and other benefits	58	3.7	73	6.0
Other costs by type	37	2.3	22	1.7
Value of goods and materials sold	0	0.0	50	4.1
<b>TOTAL COSTS</b>	<b>1 586</b>	<b>100.0</b>	<b>1 218</b>	<b>100.0</b>

## Financial result

**Elektrociepłownia "Będzin" S.A. closed the year 2017  
with net profit of PLN 7302k**

Financial result	years	
	2017 PLNk	2016 PLNk
EBITDA*	897	1 507
Business performance	858	1 392
Profit (loss) on operating activity	875	1 488
Profit (loss) on financial activity	-8	-1 116
Gross profit (loss)	867	372
Income tax	137	50
Net profit (loss)	730	322

\*EBITDA = Profit (loss) on operating activity+ *amortization and depreciation*

The above financial data of the year 2017 present the Company's performance generated in effect of exercising the supervisory role towards the supervisory companies and in effect of the service provision activity (rent).

## IV MAJOR RISK FACTORS EMBEDDED IN THE COMPANY ACTIVITY

Risks involved in the Company's activity result from the risks of activity of Elektrociepłownia "Będzin" S.A. Capital Group. The strategy of the Capital Group focuses around management and development of the currently operational segments in terms of cogeneration through combined heat and power (CHP) and financial services, mainly in the field of leasing activity.

The Company and the Capital Group cannot assure that their strategic goals will be achieved. The market where the Company and the Capital Group operate continuously changes and direction and intensity of said changes depend on numerous factors.

The market position in the years to come and, in consequence, the future revenues and gains of the Company and the Capital Group, depend on the ability to develop and implement a long-term strategy.

## V CORPORATE GOVERNANCE

Statement on the application of corporate governance principles by Elektrociepłownia "Będzin" S.A. is published on the company's website in the form of a document entitled "Information on the company's application of recommendations and principles presented in the Best Practice of Companies Listed on the Warsaw Stock Exchange 2016".

## VI PROCEEDINGS BEFORE COURT, COMPETENT ARBITRATION AUTHORITY OR PUBLIC ADMINISTRATION AUTHORITY

No court cases, either filed by or against Elektrociepłownia "Będzin" S.A. are pending.

## VII INFORMATION ABOUT CORE PRODUCTS, SALE MARKETS, SOURCES OF SUPPLY AND MAJOR OFFTAKERS

Due to the Company's dominant position in the Capital Group, the Company performs strategic management functions concerning the entire holding structure. The production activity in the area of cogeneration through combined heat and power (CHP) is carried out in the subsidiary company, Elektrociepłownia Będzin Sp. z o.o., while the financial activity is performed by the subsidiary company, Energetyczne Towarzystwo Finansowo- Leasingowe Energo - Utech S.A.

## VIII INFORMATION ABOUT VALID CONTRACTS SIGNIFICANT TO THE ACTIVITY OF ELEKTROCIEPŁOWNIA "BĘDZIN" S.A. IN 2017

On 23 January 2015, Elektrociepłownia "Będzin" S.A. and BPS S.A. Brokerage House signed an agreement on underwriting a bond issuance. By force of said agreement, the Company issued floating interest rate bonds of the total nominal value of PLN 30 000k, with the redemption date scheduled by 15 April 2018.

On 2 April 2015, Elektrociepłownia "Będzin" S.A. and Przedsiębiorstwem Usługowym UTECH Sp. z o.o. entered into agreement on the purchase of the block of 1,118 shares and agreement on conditional purchase of the block of 224 shares of items of shares of Energetycznego Towarzystwa Finansowo-Leasingowego Energo-Utech S.A. According to agreements, the final tranche of payment for the shares of PLN11,819.00k matures on 30 June 2018. Additionally, on 15 April 2015, 896 shares of ETFL Energo Utech were bought from PGE Energia Odnawialna S.A.

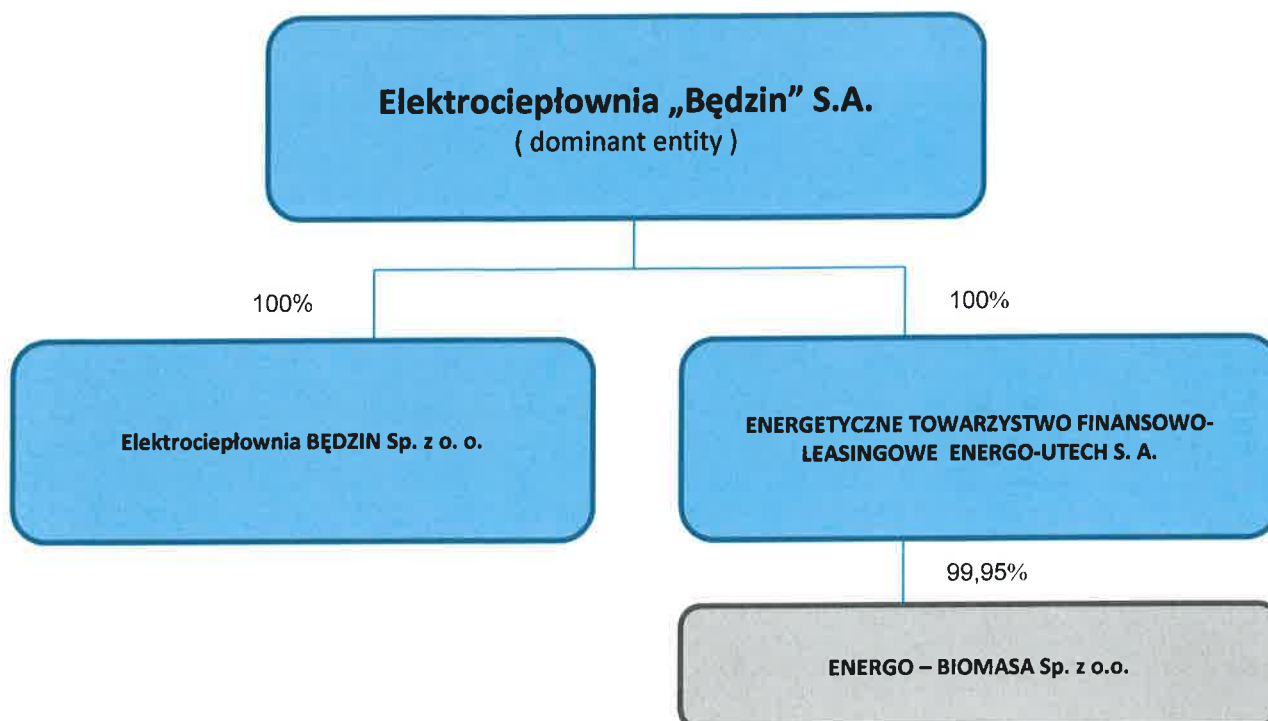
On 15 February 2016, Elektrociepłownia "Będzin" S.A. acquired assets of a significant value in the form of fixed assets group 4-5. The value of the purchased assets amounts to PLN 25.8m. The purchased assets will be utilised in lease and rent of machines and equipment segment. On 8 February 2016, the Company entered into agreement on the lease of assets from Tameh Polska Sp. z o.o. Taking into account the contractual terms, the agreement is presented in the Company's books as a financial lease agreement.

On 15 February 2016, the Company and ING Bank Śląski S.A. with the registered office in

Katowice at ul. Sokolskiej 34, entered into a corporate loan agreement on financing an investment and refinancing of incurred capital expenditures of PLN 21 649k.

## IX INFORMATION ABOUT THE COMPANY'S ORGANISATIONAL OR CAPITAL CONNECTIONS WITH OTHER ENTITIES

The structure of Elektrociepłownia "Będzin" S.A. Capital Group



On 12 May 2017, Energetyczne Towarzystwo Finansowo – Leasingowe Energo Utech S.A. acquired 99.95% shares in ENERGO BIOMASA Sp. z o.o.

On 13 December 2017, Elektrociepłownia "Będzin" S.A. sold all 54 shares held in PROMOBIL FLEET Sp. z o.o.

## X INFORMATION ABOUT SIGNIFICANT NON ARM'S LENGTH TRANSACTIONS MADE BY THE COMPANY OR ITS SUBSIDIARY WITH CONNECTED ENTITIES

Elektrociepłownia "Będzin" S.A did not make any non-arm's length transactions with connected entities.

## XI INFORMATION ABOUT SIGNED AND TERMINATED AGREEMENTS ON LOANS AND CREDITS

On 15 February 2016, the Company and ING Bank Śląski S.A. with the registered office in



Katowice at ul. Sokolskiej 34, entered into a corporate PLN loan agreement on financing an investment and refinancing of incurred capital expenditures of PLN 21 649k.

The loan agreement validity term is 15 February 2016 - 20 February 2023. The loan bears a variable interest rate set by the bank based on 1M WIBOR plus margin.

## **XII INFORMATION ABOUT PROVIDED LOANS**

In 2017, Elektrociepłownia "Będzin" S.A. did not provide loans to other entities.

## **XIII INFORMATION ABOUT PROVIDED AND RECEIVED GUARANTEES AND WARRANTIES**

Registered pledge established on shares and stock of Elektrociepłownia "Będzin" S.A. subsidiaries represent collateral for the financing provided to the Company.

## **XIV EXPLANATION OF DIFFERENCES BETWEEN FINANCIAL RESULTS PRESENTED IN THE ANNUAL REPORT AND PREVIOUSLY PUBLISHED ANNUAL PROJECTIONS**

Elektrociepłownia "Będzin" S.A. did not publish any projections.

## **XV ASSESSMENT AND JUSTIFICATION OF FINANCIAL RESOURCES MANAGEMENT**

In 2017, Elektrociepłownia "Będzin" S.A. settled all its financial liabilities as scheduled. The financial standing does not pose any threat to the fulfilment of financial liabilities going forward.

## **XVI ASSESSMENT OF FEASIBILITY OF INVESTMENT PLANS, INCLUDING EQUITY INVESTMENTS, IN COMPARISON TO AVAILABLE FUNDS**

According to the accepted strategic assumptions, Elektrociepłownia "Będzin" S.A. purchased a block of shares (100%) of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. and on 15 April 2016, ownership rights to Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. shares were transferred onto Elektrociepłownia "Będzin" S.A. The acquisition of shares was financed with proceeds from the bond issuance and with the Company's own funds, and the final tranche of payment for the shares, amounting to PLN 11,819.56, is scheduled for 30 June 2018.

On 13 April 2015, the Company carried out bond issuance 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 30,000.00.

On 13 April 2015, the Company issued bonds pursuant to art. 9(3) of the Act of June 29, 1995 on Bonds (Journal of Laws 2014.730, standardised text, as amended) through the entire planned issue, i.e. 3,000 bearer, dematerialized bonds entitling only to cash benefits, unsecured, with 3 year maturity, with a par value of PLN 10k per bond and the total nominal value of all bonds of PLN 30,000.00k. The issue period of the bonds has been extended by one year, and their redemption will take place on 10 April 2019. The Other Terms and Conditions of A-Series Bonds Issue remain unchanged.

The surplus of short-term liabilities to unrelated entities over the value of unencumbered short-term assets of the Company as at 31 December 2017 amounts to PLN 9m. This difference will be covered by dividends from subsidiaries paid out of profit for the year ended on 31 December 2017, in the total amount necessary to cover the liquidity gap. At the same time, talks are underway regarding the delay in the maturity of liabilities.

## **XVII CHARACTERISTICS OF EXTERNAL AND INTERNAL FACTORS SIGNIFICANT TO THE DEVELOPMENT OF THE COMPANY AND DESCRIPTION OF PROSPECTS FOR THE DEVELOPMENT OF THE COMPANY**

### **Strategy implementation and planned development of the Capital Group**

The strategic objective of Elektrociepłownia "Będzin" S.A. within the Capital Group is pursuit to obtain a strong position in the heat and power industry, with the use of environment-friendly technologies. The essential obligation is compliance with environment protection regulations effective since 2016. Equally, attention is paid to the development of the financial segment services.

The Company is going to follow the strategy of the Capital Group by continuation and development of the activity, paralleled by due care about the environment and reduction of costs connected with heat and power generation, as well as, expansion of the economic activity in the area of financial services.

The strategy will be executed through:

- development of the existing Capital Group,
- acquisitions of entities from the energy industry, allowing the benefit from synergy throughout different business areas of the newly created Capital Group,
- development of leasing services in the energy and electricity sector and related sectors, in connection with the offer to finance investment processes,
- further development of factoring services.

### **Significant development factors**

Factors having a strong impact on the development of the Company include, amongst others, the following:

- macroeconomic environment in Poland and macroeconomic environment of the areas in which the Capital Group companies operate, including Zagłębie Dąbrowskie (the Dąbrowa Basin), where the Company carries out its business activity,
- factors of political character,
- legal and regulatory environment,
- stances and decisions of state and European administrative institutions and units (including the Office of Competition and Consumer Protection, the Energy Regulatory Office and the European Commission),
- environment protection,
- situation in the heating, energy and electricity sector (decisions of the Energy Regulatory Office President on approval of tariffs, CO2 emission allowances, demand for heat and electrical power, competition on the heat and energy market),

- the financial sector sentiment (availability of short-term and long-term forms of activity financing, the volatility of interest rates),
- reaction of the market to new kinds of financial services offered by the Capital Group, mainly in the energy industry.

## **XVIII CHANGES IN THE MAIN PRINCIPLES OF MANAGING THE ISSUER'S ENTERPRISE, CAPITAL GROUP AND ASSOCIATED ENTITY**

Elektrociepłownia "Będzin" S.A., acting within the Capital Group, exercises permanent corporate governance through the General Meeting of Shareholders of the following entities:

- Elektrociepłownia BĘDZIN Sp. z o.o.
- 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 (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, as well as 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 2014.133).

## **XIX AGREEMENTS BETWEEN THE ISSUER 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 ISSUER'S MERGER THROUGH ACQUISITION**

Between 1 January 2017 and 31 December 2017, the Company did not enter into any agreements with persons holding managerial positions.

## **XX THE VALUE OF REMUNERATION, AWARDS OR BENEFITS RESULTING FROM INCENTIVE OR BONUS SCHEMES BASED ON THE ISSUER'S EQUITY**

Information about remuneration, including profit sharing, paid or due to persons holding positions in the Company's management, supervisory or administrative authorities. (in PLNk).

Item	Professional groups	2017	2016
1.	Management authorities	312	12
2.	Supervisory authorities	280	257
<b>TOTAL</b>		<b>592</b>	<b>269</b>

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



## XXI TOTAL NUMBER AND NOMINAL VALUE OF ALL OF THE ISSUER'S SHARES

The Company's share capital totalled PLN 15 746k and was 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.

### Shareholdings of major shareholders.

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

Specification	As at 29 November 2017**				As at 31 December 2017.				Change	
	shares	votes	shares [%]	votes [%]	shares	votes	shares [%]	votes [%]	purchase	sale
Krzysztof Kwiatkowski*	935 499	935 499	29,71	29,71	952 499	952 499	30,25	30,25	17 000	-
Waldemar Organista	453 146	453 146	14,39	14,39	453 146	453 146	14,39	14,39	-	-
Aglo Funds TFI S.A.	334 747	334 747	10,63	10,63	334 747	334 747	10,63	10,63	-	-
Bank Gospodarstwa Krajowego	311 355	311 355	9,89	9,89	311 355	311 355	9,89	9,89	-	-
Famillar S.A. SICAV - SIR	271 526	271 526	8,62	8,62	271 526	271 526	8,62	8,62	-	-
State Treasury	157 466	157 466	5,00	5,00	157 466	157 466	5,00	5,00	-	-
<b>Total</b>	<b>2 463 739</b>	<b>2 463 739</b>	<b>78,23</b>	<b>78,23</b>	<b>2 480 739</b>	<b>2 480 739</b>	<b>78,77</b>	<b>78,77</b>	<b>17 000</b>	<b>-</b>

\* 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

\*\* Information as at the date of issuing the report for Q3 2017.

### Shareholding of persons holding managerial and supervisory positions.

Persons managing and supervising Elektrociepłownia "Będzin" S.A. hold the following shares or rights thereto:

Specification	As at 29 November 2017**				As at 31 December 2017.				Change	
	shares	votes	shares [%]	votes [%]	shares	votes	shares [%]	votes [%]	purchase	sale
Krzysztof Kwiatkowski*	935 499	935 499	29,71	29,71	952 499	952 499	30,25	30,25	17 000	-
Waldemar Organista	453 146	453 146	14,39	14,39	453 146	453 146	14,39	14,39	-	-
<b>Total</b>	<b>1 388 645</b>	<b>1 388 645</b>	<b>44,10</b>	<b>44,10</b>	<b>1 405 645</b>	<b>1 405 645</b>	<b>44,63</b>	<b>44,63</b>	<b>17 000</b>	<b>-</b>

\* 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

\*\* Information as at the date of issuing the report for Q3 2017.

## XXII INFORMATION ABOUT AGREEMENTS KNOWN TO THE ISSUERS (INCLUDING THOSE ENTERED INTO AFTER THE BALANCE SHEET DATE) WHEREBY THE HOLDING OF CURRENT SHAREHOLDERS AND BONDHOLDERS MAY CHANGE IN THE FUTURE

As at the date of these financial statements the issuer is not aware of any agreements whereby the holding of current shareholders and bondholders may change in the future.

## XXIII INFORMATION ABOUT THE EMPLOYEE STOCK OWNERSHIP PLAN CONTROL SYSTEMS

No employee stock ownership plans exist in the Company, therefore no employee stock ownership plan control systems apply.

## XXIV INFORMATION ABOUT ENTITY AUTHORIZED TO AUDIT THE FINANCIAL STATEMENTS

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 Audyty 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 agreements 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 Audyty 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.

## XXV ADDITIONAL INFORMATION

On 22 July 2016, the Company acceded the debt of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. arising from three factoring agreements of 22 July 2016 on the acquisition and financing of leasing receivables, said agreements no.: 879/07/2016, 880/07/2016 and 881/07/2016, whereby PKO BP Faktoring S.A. with the registered office in Warsaw granted to the Debtor the total financing limit of PLN 20 000 000 (twenty million Polish zloty), for the term expiring on 21 July 2021. By force of the foregoing agreement, the Party acceding the debt and the Debtor are jointly and severally liable for the debt and the Factor may claim total or part of the funds from the both parties held liable or from each of the parties separately.

Krzysztof Kwiatkowski - President of the Management Board

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Poznań, 27 April 2018

## **Declaration on Corporate Governance Appendix 1 to**

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

**Elektrociepłownia "Będzin" S.A.**



## 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**

<b>Matters requiring the Management Board resolution</b>
<ol style="list-style-type: none"><li>1. The Company's organisational regulations,</li><li>2. Taking out credits and loans,</li><li>3. Granting loan guarantees and tangible security,</li><li>4. Adaptation of annual business plan,</li><li>5. Any matters which the Management Board needs to refer to the Annual General Meeting or the Supervisory Board.</li></ol>

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 obliged 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**

<b>Matters requiring the Supervisory Board resolution</b>
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<sup>1</sup> to 406<sup>3</sup> 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**

<b>Matters requiring the Annual General Meeting resolution</b>
<ol style="list-style-type: none"><li>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.</li><li>2. Giving the vote of approval to members of the Company's authorities regarding performance of their duties,</li><li>3. Distribution of profits and coverage of losses,</li><li>4. Changing the aim of the business activity of the Company,</li><li>5. Changing the Statute of the Company,</li><li>6. Increasing or decreasing the share capital,</li><li>7. Terms and conditions of redemption of shares,</li><li>8. Mergers and transformations of the Company,</li><li>9. Termination and liquidation of the Company,</li><li>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,</li><li>11. Selling and renting the company, placing the right to use the company,</li><li>12. Raising and cancelling the Company's capital.</li><li>13. Any provisions concerning claims for adjustment of damages which occurred upon the establishment of the Company or performing management or supervision duties.</li></ol>

### **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, ninth 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 Głanowski - 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 19<sup>th</sup> 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 18<sup>th</sup> 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 Pietőń - 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

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Poznań, 27 April 2018