



**ELEKTROCIEPŁOWNIA "BĘDZIN" S.A.
CAPITAL GROUP**

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE TERM FROM 1 JANUARY TO 30 JUNE 2018
COMPLIANT WITH IAS 34
"INTERIM FINANCIAL REPORTING"**

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1. General information

These condensed interim consolidated financial statements for the term from 1 January to 30 June 2018 have been produced pursuant to International Accounting Standard 34 "Interim Financial Reporting" approved by the European Union.

The statements present in a reliable and transparent manner the asset and financial standing of Elektrociepłownia "Będzin" S.A. Capital Group, have been approved for issue by the Management Board of Elektrociepłownia "Będzin" S.A. (parent company) and incorporate the following:

- Condensed interim consolidated statement of financial position produced as at 30 June 2018,
- Condensed interim consolidated Profit and Loss Account and other comprehensive income for the terms of three and six months ending on 30 June 2018,
- Condensed interim consolidated statement of changes in equity for the period from 1 January to 30 June 2018,
- Condensed interim consolidated Cash flow statement for the period from 1 January to 30 June 2018,
- Additional information to the condensed interim consolidated financial statements.

Management Board of Elektrociepłownia "Będzin" S.A.

Krzysztof Kwiatkowski
President of the Management Board

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

Bożena Poznańska

Poznań, 14 September 2018

2. Condensed consolidated statement of financial position

	Note	30.06.2018 unexamined	31.12.2017
Aktywa			
Fixed assets			
Tangible fixed assets	12	246 004	251 643
Intangible assets	13	3 817	4 187
Goodwill		1 937	1 937
Receivables under lease agreements		232 613	223 622
Granted loans		11 107	10 669
Pozostałe inwestycje długoterminowe		-	-
Trade debtors and other debtors		1 500	1 500
Deferred tax assets		868	971
Total fixed assets		497 846	494 529
Current assets			
Inventories		17 228	20 546
Receivables under lease agreements		112 279	113 412
Granted loans		33 027	27 774
Trade debtors and other debtors		7 098	23 397
Należności z tytułu podatku dochodowego		1 174	411
Cash and cash equivalents		39 210	30 228
Accruals		65	77
Total current assets		210 081	215 845
Total assets		707 927	710 374

Explanatory notes to condensed interim consolidated financial statements represent its integral part

Elektrociepłownia "Będzin" S.A. Capital Group

*Condensed interim consolidated financial statements for the accounting term from 1 January to 30 June 2018
(as per IAS 34 "Interim Financial Reporting", in PLN k)*

	<i>Note</i>	30.06.2018 unexamined	31.12.2017
Liabilities			
Equity	16		
Share capital		37 728	37 728
Supplementary capital		67 613	48 288
Reserve capital		44 843	44 843
Defined benefits plan revaluation reserve		(89)	(125)
Retained profits		24 571	38 960
Total equity		174 666	169 694
Long-term liabilities			
Liabilities under loans, borrowings and other debt instruments		259 543	289 099
Liabilities under employee benefits	18	5 554	9 305
Trade creditors and other creditors		5 944	5 597
Provisions	19	3 389	4 744
Deferred income tax provisions		8 442	8 496
Total long-term liabilities		282 872	317 241
Short-term liabilities			
Liabilities under loans, borrowings and other debt instruments		203 641	172 530
Trade creditors and other creditors		26 989	31 788
Liabilities under employee benefits	18	3 040	4 754
Income tax liabilities		-	465
Provisions	19	16 719	13 902
Total short-term liabilities		250 389	223 439
Total liabilities		533 261	540 680
Total liabilities		707 927	710 374

Explanatory notes to condensed interim consolidated financial statements represent its integral part

3. Condensed consolidated statement of profit and loss account and other comprehensive income

	<i>01.04.2018- 30.06.2018 unexamined</i>	<i>01.04.2017- 30.06.2017 unexamined</i>	<i>01.01.2018 - 30.06.2018 unexamined</i>	<i>01.01.2017 - 30.06.2017 unexamined</i>
Revenues	25 383	41 050	93 848	102 533
Other operating revenues	1 305	433	1 667	1 146
Amortization and depreciation	(4 879)	(4 813)	(9 771)	(9 610)
Consumption of materials and energy	(12 922)	(17 087)	(49 036)	(38 262)
External services	(3 375)	(3 517)	(8 414)	(6 915)
Taxes and charges	(983)	(1 384)	(2 295)	(2 876)
Payroll and employee benefits	(1 691)	(5 666)	(8 473)	(11 866)
Other costs by type	(503)	(61)	(1 060)	(295)
Value of goods and materials sold	(1 562)	(220)	(2 283)	(597)
Other operating expenses	(827)	(733)	(860)	(1 229)
Profit (loss) on operating activities	(54)	8 002	13 323	32 029
Financial revenues	3 245	467	3 473	662
Financial expenses	(5 305)	(6 255)	(10 316)	(11 040)
Net financial revenues/ (expenses)	(2 060)	(5 788)	(6 843)	(10 378)
Share in net profit of entities measured by equity method	(505)	56	(505)	94
Gross profit (loss)	(2 619)	2 270	5 975	21 745
Income tax	981	(740)	(1 039)	(4 488)
Net profit (loss)	(1 638)	1 530	4 936	17 257
Other total income not taken to financial result in future reporting periods				
Revaluation of net liability under defined benefits plan	44	(141)	44	(141)
Income tax on items not taken to financial result	(8)	27	(8)	27
	36	(114)	36	(114)
Other comprehensive income for reporting period	36	(114)	36	(114)
Profits or losses and other comprehensive income for reporting period	(1 602)	1 416	4 972	17 143
Net profit (loss) per share				
Main (in PLN)	(0,52)	0,49	1,57	5,48
Diluted (in PLN)	(0,52)	0,49	1,57	5,48

The presented net profit is distributed in total to shareholders of the parent entity.

Explanatory notes to condensed interim consolidated financial statements represent its integral part

Elektrociepłownia "Będzin" S.A. Capital Group
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4. Condensed consolidated statement of changes in equity

	Share capital	Supplementary capital	Reserve capital	Defined benefits plan revaluation reserve	Retained profits	Total equity
Equity as at 01.01.2018	37 728	48 288	44 843	(125)	38 960	169 694
Net profit distribution	-	19 325	-	-	(19 325)	-
Profits or losses for reporting period						
Net profit for reporting period	-	-	-	-	4 936	4 936
Other comprehensive income for reporting period						
Revaluation of net liability under defined benefit plan (adjusted by tax)	-	-	-	36	-	36
Profits or losses and other comprehensive income for reporting period	-	-	-	36	4 936	4 972
Equity as at 30.06.2018 unexpected	37 728	67 613	44 843	(89)	24 571	174 666

	Share capital	Supplementary capital	Reserve capital	Defined benefits plan revaluation reserve	Retained profits	Total equity
Equity as at 01.01.2017	37 728	45 352	26 938	266	45 455	155 739
Net profit distribution	-	2 936	17 905	-	(20 841)	-
Profits or losses for reporting period						
Net profit for reporting period	-	-	-	-	17 257	17 257
Other comprehensive income for reporting period						
Revaluation of net liability under defined benefit plan (adjusted by tax)	-	-	-	(114)	-	(114)
Profits or losses and other comprehensive income for reporting period	-	-	-	(114)	17 257	17 143
Equity as at 30.06.2017 unexpected	37 728	48 288	44 843	152	41 871	172 882

Explanatory notes to condensed interim consolidated financial statements represent its integral part

5. Consolidated cash flow statement

	01.01.2018 - 30.06.2018 unexamined	01.01.2017 - 30.06.2017 unexamined
Cash flow from operating activities		
Gross profit	5 975	21 750
<i>Adjustments</i>		
Depreciation of tangible fixed assets	9 354	9 176
Amortisation of intangible assets	417	434
Profit on investment activity	-	49
Share in profit of entities measured with equity method	505	(94)
Change in receivables under lease agreements	(5 298)	4 694
Change in granted loans	(4 356)	3 121
Change in inventories	2 366	16 262
Change in trade debtors and other debtors	14 471	32 983
Change in trade creditors and other creditors	(4 669)	(7 794)
Change in provisions for employee benefits	(3 930)	(9 601)
Change in accruals	97	19
Other adjustments	(2 991)	-
Cash flows from operating activity	11 941	70 999
Net financial revenues/(costs)	10 193	11 015
Interest received	(115)	(138)
Interest paid	-	1 609
Income tax paid	(1 761)	(5 410)
Net cash flows from operating activity	20 258	78 075
Cash flows from investment activity		
Purchase of tangible fixed assets	(1 188)	(5 206)
Purchase of intangible assets	(77)	(387)
Purchase of other investments	-	(10)
Disposal of tangible fixed assets	-	164
Received interest	115	138
Other expenditure	1 050	(7)
Net cash flows from investment activity	(100)	(5 308)
Cash flows from financial activity		
Raised loans, credits and other debt instruments	118 674	89 830
Repaid loans, credits and other debt instruments	(118 566)	(112 651)
Payments under financial lease agreements	(858)	(695)
Interest paid	(10 243)	(12 077)
Net cash flows from financial activity	(10 993)	(35 588)
Net cash flows from financial activity	9 165	37 179
Opening balance of cash and cash equivalents	30 228	22 216
Change in the classification of financed assets	(183)	-
Closing balance of cash and cash equivalents	39 210	59 395
including restricted cash	9 988	3 023

Explanatory notes to condensed interim consolidated financial statements represent its integral part

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Elektrociepłownia "Będzin" S.A. ("the parent company") is registered in Poland with the registered office in Poznań, at ul. Bolesława Krzywoustego 7.

Elektrociepłownia "Będzin" S.A. is the parent company of Elektrociepłownia "Będzin" S.A. Capital Group.

The condensed interim consolidated financial statements for the period from 1 January to 30 June 2018 incorporate the financial statements of the parent company and its subsidiaries (referred to jointly as the "Capital Group").

The share capital of the parent entity totals PLN 15,746.00 and is divided into 3,149,200 shares series A with the nominal value of PLN 5 each. The equity has been revaluated as per the information referred to in Note 16.

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

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

The principal activities of the parent company and of the Capital Group are:

- heat generation (water steam and hot water),
- electricity generation,
- financial leasing,
- other financial services.

Associates as at 30 June 2018

Company name and registered office	Country	Share%	
		30.06.2018	31.12.2017
Elektrociepłownia BĘDZIN sp. z o. o. ul. Małobądzka 141, Będzin	Poland	100	100
Energetyczne Towarzystwo Finansowo- Leasingowe Energo-Utech SA ul. Bolesława Krzywoustego 7, Poznań	Poland	100	100

Co-controlled entities as at 30 June 2018

Company name and registered office	Country	Share %	
		30.06.2018	31.12.2017
Energo-Biomasa sp. z o. o. Suliszewo 97, Drawsko Pomorskie	Poland	19,99	99,95

On 16 April 2018, the General Meeting of Shareholders of ENERGO-BIOMASA spółka z o.o. adopted a resolution to top up the Company's share capital to PLN 2,500.00k, which led to decreasing the share of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. to 19.99%. The share capital increase was registered in the National Court Register on 6 September 2018.

On 16 April 2018, ENERGO-BIOMASA spółka z o.o. Company Deed was amended thereby making the company controlled by partners, i.e.:

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- introduction of the requirement that resolutions of the General Meeting of Shareholders must be adopted in the presence of 100% of the share capital in the case of voting on the financial and operating policy,
- granting the right to appoint and dismiss the President of the Management Board to a partner - ETF-L ENERGO-UTECH S.A. with the registered office in Poznań,
- granting the right to appoint and dismiss the President of the Management Board to a partner Zofia Fabich.
- introduction of two-person representation: two Members of the Management Board jointly or, one Member of the Management Board and a proxy appointed by the Management Board of ENERGO-BIOMASA spółka z o.o.

The amendments to ENERGO-BIOMASA spółka z o.o. Company Deed resulted in exclusion from consolidation and presentation of shares in the co-controlled entity in accordance with the ownership rights method.

As at the day of approving these condensed interim consolidated financial statements for issue and as at 30 June 2018, the composition of the management and supervisory bodies of the parent company was as follows:

Management Board

Krzysztof Kwiatkowski - President of the Management Board

Between 1 January 2018 and 30 June 2018, the Supervisory Board performed its 9th term of office in the following composition:

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

On 29 June 2018, Grzegorz Kwiatkowski resigned from the position in the Supervisory Board. As of 1 July 2018, the Supervisory Board has been performing its 9th term of office in the following composition:

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

Audit Committee at the Supervisory Board

Janusz Niedźwiedzki	- Chairman of the Audit Committee
Waldemar Organista	- Member of the Audit Committee
Wojciech Sobczak	- Member of the Audit Committee

7. Basis for the condensed interim consolidated financial statement

7.1 Statement of compliance

These condensed interim consolidated financial statements for the period from 1 January to 30 June 2018 have been produced as per the International Accounting Standard 34 "Interim financial reporting" approved by the European Union ("EU") and the Resolution of the Ministry of Finance dated 29 March 2018 (Journal of Laws from 2018, item 757) on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as being equivalent to information required by regulations of law of a state which is not a member state.

The condensed interim consolidated financial statements have been prepared assuming continuation of business activity in the foreseeable future.

7.2 Basis for valuation

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

7.3 Functional and presentation currency

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

7.4 Judgements and estimates

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

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

The main judgements and estimates made by the Management Board of the Parent Company when producing the condensed interim consolidated financial statements remained the same when compared to the judgements and estimates made when producing the annual consolidated financial statements for the financial year 2017

8. Description of key accounting principles

These condensed interim consolidated financial statements of the Capital Group were prepared in accordance with accounting principles applied in the preparation of the annual consolidated financial statements for 2017, with the exception of the adopted new IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments".

IFRS 9 "Financial Instruments"

Principles of qualification and measurement of financial assets and liabilities

As permitted by the standard, the Group resigned from transforming comparable data. Data as at 31 December 2017 and data for the six months ended on 30 June 2017 were prepared based on IAS 39 *Financial Instruments: Recognition and Measurement*.

As of 1 January 2018, at the moment of initial recognition, the Group classifies financial assets into one of three following categories:

- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss.

The Group classifies financial assets to the relevant category depending on:

- the model of financial asset management by the entity and
- characteristics of expected cash flows from a particular component of assets.

A financial asset is classified as measured at amortized cost if the following two conditions are met:

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- assets are held as part of a business model, the purpose of which is to keep assets in order to obtain cash flows arising from the contract; and
- its contractual terms result in the occurrence, at certain times, of cash flows representing solely the repayment of principal and interest on the unpaid part of the capital.

The Group recognized that it was not possible to directly translate the categories of financial assets set out in IAS 39 *Financial Instruments: Recognition and Measurement* into categories defined in IFRS 9 *Financial Instruments* and therefore, the Group developed a methodology for the classification of financial assets, whereby it formulated principles for the cash flows characteristics test and rules for the business model test. On the basis of said principles and rules, the Group carried out business model tests and SPPI tests for all material financial assets as at 1 January 2018.

In accordance with the business model, the Group's financial assets are characterized by cash flows matching the repayments of principal and interest and they are held in order to obtain cash flows until the maturity date.

In the category of assets measured at amortized cost, the Group includes the following items in the financial statements: trade receivables, loans granted, other receivables as well as cash and cash equivalents.

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method, including impairment charges. Trade receivables with a maturity of less than 12 months from the date of arising are not discounted and are measured at their nominal value.

The Group has no other financial assets, except for receivables under lease agreements, which are subject to the provisions of IFRS 9 only in terms of impairment.

As of January 2018, as of the moment of initial recognition, the Group classifies financial liabilities into one of the following categories:

- measured at amortized cost,
- carried at fair value through profit or loss,

The Group has no material liabilities measured at fair value through profit or loss.

The conducted analysis showed that the Group's measurement of financial assets and liabilities remains unchanged.

Item in the financial statements	Category as per IAS 39	Category as per IFRS 9
Loans granted	Loans and receivables	Measured at amortised cost
Trade receivables and other receivables	Loans and receivables	Measured at amortised cost
Cash and cash equivalents	Cash and cash equivalents	Measured at amortised cost
Liabilities arising from loans, borrowings and other debt instruments and other liabilities	Other liabilities	Measured at amortised cost

Impairment of Financial Assets

The previously applied rules for the recognition of credit losses based on the incurred loss have been replaced in IFRS 9 *Financial Instruments* with the concept of expected loss resulting in the recognition of an impairment charge on assets from the moment of initial recognition of said assets. Requirements regarding the impairment of financial assets refer to financial assets measured at amortized cost and measured at fair value through other comprehensive income.

The Group identified the following categories of financial assets, where it verified the impact of the calculation of expected credit losses in accordance with IFRS 9 *Financial Instruments* on the consolidated financial statements:

- receivables from financial lease agreements,
- loans granted,
- receivables from customers

As regards receivables arising from financial lease agreements and loans, it is expected that historical repayment data may reflect the credit risk that will be incurred in future periods. The expected credit losses for counterparties were estimated using the receivables portfolio value matrix and based on the allocation of percentage ratios allowing to estimate the value of receivables from customers that are not expected to be repaid (the analysis took into account repayment data, overdue periods, share of losses incurred on individual categories of receivables).

In justified cases, the Group also makes an individual assessment of credit risk and estimates the related losses using quantitative and qualitative data, such as the value and quality of collateral established or the estimated value of the leased assets.

Credit risk ratios estimated on the basis of historical data for the period 2013-2018 at the level of:

- receivables from lease agreements - 0.19% of the gross portfolio value,
- receivables from loan agreements - 3.3% of the gross portfolio value.

Application of IFRS 9 *Financial Instruments* with regard to the recognition of expected credit losses did not affect the retained profits of the Group as at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

This standard defines how and when revenue is recognized, while stipulating the provision of more detailed disclosures. The standard replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* and many interpretations related to the recognition of revenue.

The most important principles introduced by IFRS 15 Revenue from Contracts with Customers include:

- introduction of a five-level revenue recognition model comprising: identification of a contract with the customer, identification of individual obligations to perform the service, determination of the transaction price, allocation of the transaction price to individual obligations to perform services and recognition of revenue at the time of performance of the contractual obligation;
- recognition of revenue at the moment when the obligation to deliver the asset is fulfilled (or when its fulfilment is pending). An asset is transferred when the control over said asset is transferred, as well;
- determination of the transaction price at the level of the remuneration to which the entity is expected to be entitled in exchange for the transferred assets or provided services, excluding amounts collected on behalf of third parties.

In accordance with IFRS 15, the Group presents the recognized revenue from contracts with customers broken down into categories reflecting the impact of economic factors on the profile, amount, payment date and uncertainty of revenue and cash flows. In particular, the Group is required to disclose quantitative and qualitative information regarding: contracts with customers, key assumptions and estimates adopted by the entity as well as capitalized costs of acquisition and delivery of contracts.

Impact on the consolidated financial statements as at 1 January 2018

IFRS15 applies to revenue generated by the Group in the energy segment. Revenue of the financial segment are subject to separate standards.

The Group applied the requirements of IFRS 15 *Revenue from Contracts with Customers* using a modified retrospective approach, i.e. with the combined effect of the first application of the standard recognized on the day of its first application. As permitted by IFRS 15, the Group resigned from

transformation of comparable data. Data as at 31 December 2017 and those for the six months ended on 30 June 2017 were prepared on the basis of IAS 18 *Revenue*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfer of Assets from Customers* as well as interpretations related to the recognition of revenue before IFRS 15 *Revenue from Contracts with Customers* came into force and effect. The analysis of contracts with customers regarding the correct determination of revenue in accordance with IFRS 15 was carried out:

1. Identification of contract with customer - contractual arrangements regulate the sale of heat and electricity by the Group to strategic customers. The sale of electricity is also conducted through the stock market.
2. Identification of the obligation to provide the service - the valid contracts with strategic customers contain only one commitment to provide the service, which concerns the supply of heat or electricity within a certain period of time. The revenue is calculated for deliveries made in a given reporting period, based on a detailed record of the energy volumes delivered.
3. Determination of transaction price - contractual price for heat is based on the applicable tariffs, while electricity prices are determined based on stock exchange indices, separately for each delivery. There are no other arrangements that affect the determined transaction price.
4. Allocation of the transaction price to individual obligations to provide the service - the Group assigns the transaction price to each obligation to perform the service in an amount that reflects the remuneration that it is entitled to in exchange for the promised goods and services to the customer.
5. Income recognition when the contractual obligation is fulfilled - revenue is recognized when the assets and services are provided to the customer and the customer gains control over the asset - at the moment of transferring identifiable energy volumes to the energy or heating networks. Revenues are recognized in an amount equal to the transaction price.

Based on the analysis, the Group concluded that the implementation of IFRS 15 does not affect the Group's equity due to the fact that the recognition of revenues covered by IFRS 15, when taking into account the provisions of contracts with customers, does not change.

A few new Standards, amendments to Standards and Interpretations are not yet effective for annual periods beginning on 1 January 2018 and thus, have not been applied in the condensed interim consolidated financial statements. Among the new Standards, amendments to Standards and Interpretations, those listed below may have a significant impact on the condensed consolidated financial statements of the Group. The Group intends to apply them for the periods for which they are binding for the first time.

- IFRS 16 *Leasing* - for periods beginning on 1 January 2019,

The Group is a party to a number of financial and operating lease contracts as a lessor. Due to the lack of significant changes in the classification criteria for individual contracts, between IFRS 16 *Leasing* and the standards previously binding upon lessors as well as the Group's accounting policy in this respect (the key criterion is transferring risk and rewards attributable to the fact of holding the identified assets – it determines the recognition of individual contracts), the Group does not expect significant impact of the new standard on its financial statements.

- Sale or Transfer of Assets between the Investor and the Associated Company or Joint Undertaking (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures) - date of application has not been specified,
- IFRIC 23 Uncertainty Over Income Tax Treatments - for periods beginning on 1 January 2019,
- Amendments to IFRS 9 Financial Instruments - for periods beginning on 1 January 2019,
- Amendments to IAS 28 Investments in Associates and Joint Ventures - for periods beginning on 1 January 2019,
- Amendments to the International Financial Reporting Standards 2015-2017 - for periods beginning on 1 January 2019,
- Amendments to IAS 19 Employee Benefits (Plan Amendments, Curtailments or Settlements) - for periods beginning on 1 January 2019.

The Group expects that upon the initial application of the foregoing Standards, these Standards will not have a material impact on the financial statements.

The Group has not decided to apply earlier any other standard, interpretation or amendment that has been published but has not yet entered into force in the light of the European Union regulations.

9. Fair value measurement

In many cases, the adopted accounting and disclosure principles require the Capital Group to measure the fair value of both financial and non-financial assets and liabilities. Further information about the assumptions for measuring fair value has been presented in the explanatory notes concerning individual assets and liabilities.

10. Financial risk management

The Capital Group is exposed to the following types of risk related to the use of financial instruments:

- Credit risk,
- Liquidity risk,
- Fx risk,
- Interest rate risk.

Information about the Capital Group's exposure to a given risk, objectives, principles and procedures of risk measurement and management adopted by the Capital Group along with information of capital management by the Capital Group is presented in annual consolidated financial statements for financial year 2017

As at 30 June 2018, the short-term liabilities of the Group totalled PLN 250,389k and were PLN 40,308k up on the current assets. The surplus results mainly from the need to settle the payments and funding sources for the acquisition of shares in Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A. in 2015.

The Group's profitability is ensured by long-term contracts for the supply of heat, the prosperity on the electricity market as well as long-term lease and tenancy agreements.

In the opinion of the Management Board of the parent company, a significant part of the above gap will be covered with funds, constituting a surplus of cash flows generated by the Group in the period before the maturity of individual short-term financial liabilities. In order to cover the remaining part of the financial gap, the Group undertook actions aimed to:

- obtain additional credits and loans,
- extend the maturity of a part of financial liabilities arising from financing the acquisition of shares in Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A.,
- acquire additional funds from investors, under the offered issue of debt securities.

11. Business segments reporting

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

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

Elektrociepłownia "Będzin" S.A. Capital Group

*Condensed interim consolidated financial statements for the accounting term from 1 January to 30 June 2018
(as per IAS 34 "Interim Financial Reporting", in PLN k)*

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

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

Operational segments period 01.01.2018 - 30.06.2018	Energy segment	Financial segment	Total
Revenues from external customers	79 236	14 612	93 848
Other operational revenues	1 407	260	1 667
Segment total revenues	80 643	14 872	95 515
Amortisation	(7 379)	(2 392)	(9 771)
Consumption of materials and energy	(48 949)	(87)	(49 036)
Third party services	(7 921)	(493)	(8 414)
Taxes and fees	(1 892)	(403)	(2 295)
Remuneration and employee benefits	(5 914)	(2 559)	(8 473)
Other costs by type	(213)	(847)	(1 060)
Value of sold goods and materials	(2 283)	-	(2 283)
Other operating costs	(663)	(197)	(860)
Operational activity bottom line	5 429	7 894	13 323
Financial revenues	269	3 204	3 473
Financial expenses	(1 776)	(8 540)	(10 316)
Profit from share in associates measured with equity method	-	(505)	(505)
	3 922	2 053	5 975
Income tax	(745)	(294)	(1 039)
Net profit	3 177	1 759	4 936

Assets and liabilities of segments as at 30.06.2018	Energy segment	Financial segment	Total
Segment assets	275 442	432 485	707 927
Total assets	275 442	432 485	707 927
Segment liabilities	105 384	427 877	533 261
Total equity	170 058	4 608	174 666
Total liabilities and equity	275 442	432 485	707 927

Elektrociepłownia "Będzin" S.A. Capital Group

*Condensed interim consolidated financial statements for the accounting term from 1 January to 30 June 2018
(as per IAS 34 "Interim Financial Reporting", in PLN k)*

Operational segments period 01.01.2017 - 30.06.2017	Energy segment	Financial segment	Total
Revenues from external customers	86 884	15 649	102 533
Other operational revenues	524	622	1 146
Segment total revenues	87 408	16 271	103 679
Amortisation	(6 871)	(2 739)	(9 610)
Consumption of materials and energy	(38 180)	(82)	(38 262)
Third party services	(6 447)	(468)	(6 915)
Taxes and fees	(2 133)	(743)	(2 876)
Remuneration and employee benefits	(9 152)	(2 714)	(11 866)
Other costs by type	(295)	-	(295)
Value of sold goods and materials	(597)	-	(597)
Other operating costs	(431)	(798)	(1 229)
Operational activity bottom line	23 302	8 727	32 029
Financial revenues	238	424	662
Financial expenses	(1 696)	(9 344)	(11 040)
Profit from share in associates measured with equity method		94	94
Profit before tax	21 844	(99)	21 745
Income tax	(4 133)	(355)	(4 488)
Net profit	17 711	(454)	17 257

Assets and liabilities of segments as at 30.06.2017	Energy segment	Financial segment	Total
Segment assets	286 278	427 510	713 788
Total assets	286 278	427 510	713 788
Segment liabilities	118 596	422 310	540 906
Total equity	167 682	5 200	172 882
Total liabilities and equity	286 278	427 510	713 788

Energy sector income due from	30.06.2018	30.06.2017
electricity	32 014	32 521
heat	44 771	53 196
Other	2 451	1 167
As at the end of period	79 236	86 884

Financial sector income due from	30.06.2018	30.06.2017
Lease, rental	12 281	13 231
interest on loans, factoring granted	1 617	1 283
Other	714	1 135
As at the end of period	14 612	15 649

Activities of the energy segment are characterised by concentration of credit risk – majority of revenues from sales are generated from the sale of products to entities Tauron S.A. Group. Activities of the energy segment are seasonal and match the heat sale schedule. Profitability of the heat sale activity is impacted by lower profitability of assets during summertime resulting from lower heat demand.

12. Tangible fixed assets

Gross value of tangible fixed assets	Land, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Gross value as at 01.01.2017	70 436	176 794	43 843	1 176	6 018	298 267
Purchase	3 315	21 706	229	279	29 291	54 820
Sale	-	-	(5 746)	-	-	(5 746)
Liquidation	-	(10)	-	-	-	(10)
Settlement/change of classification	-	-	-	-	(23 221)	(23 221)
Gross value as at 31.12.2017	73 751	198 490	38 326	1 455	12 088	324 110
Gross value as at 01.01.2018	73 751	198 490	38 326	1 455	12 088	324 110
Purchase	2 774	13 043	-	21	7 783	23 621
Sale	-	(15)	-	-	-	(15)
Liquidation	-	(44)	-	-	-	(44)
Settlement/change of classification	(4)	(2 030)	(91)	-	(17 925)	(20 050)
Gross value as at 30.06.2018	76 521	209 444	38 235	1 476	1 946	327 622

Depreciation and impairment charges	Land, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Depreciation and impairment charges as at 01.01.2017	7 367	34 597	15 215	634	-	57 813
Depreciation	2 914	11 034	4 344	185	-	18 477
Sale	-	-	(3 815)	-	-	(3 815)
Odpisy z tytułu utraty wartości	-	(8)	-	-	-	(8)
Depreciation and impairment charges as at 31.12.2017	10 281	45 623	15 744	819	-	72 467
Depreciation and impairment charges as at 01.01.2018	10 281	45 623	15 744	819	-	72 467
Depreciation	1 516	5 887	1 845	107	-	9 355
Sale	-	(16)	-	-	-	(16)
Likwidacja	-	(44)	-	-	-	(44)
Rozliczenie/zmiana klasyfikacji	-	(141)	(3)	-	-	(144)
Depreciation and impairment charges as at 30.06.2018	11 797	51 309	17 586	926	-	81 618

Net value	Land, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
01.01.2017	63 070	142 197	28 628	541	6 018	240 454
31.12.2017	63 470	152 867	22 582	636	12 088	251 643
01.01.2018	63 470	152 867	22 582	636	12 088	251 641
30.06.2018	64 724	158 135	20 649	550	1 946	246 004

Acquisitions of fixed assets made during the reporting period were related mainly to the investment process carried out in Elektrociepłownia Będzin sp. z o. o. aimed to adjust the heat and power station to natural environment protection requirements in accordance with the European Union recommendations.

The Group did not make impairment charges as at 30 June 2018 and 31 December 2017. At the end of the current accounting period for the energy segment, the Group carried out a test for impairment of operating assets due to a significant increase in the prices of CO2 emission allowances.

The estimated forecast of future cash flows was prepared taking into account detailed financial projections for the years 2018-2027. The final value was estimated by extrapolating the forecast of free cash flows beyond the planned period, using the applicable growth rate adequate for a given centre. The valuation was made based on the weighted average cost of capital standing at 7.25%. The usable value of the segment as at the testing date, i.e. 30 June 2018 stood at PLN 312,991k. The estimated recoverable value did not trigger the necessity to apply impairment charges.

13. Intangible assets

Gross value of intangibles	Patents, licences, software	Other intangible assets	Total
Gross value as at 01.01.2017	944	5 512	6 456
Acquisition	87	-	87
Gross value as at 31.12.2017	1 031	5 512	6 543
Gross value as at 01.01.2018	1 031	5 512	6 543
Acquisition	60	-	60
Settlement/change of classification	(21)	-	(21)
Gross value as at 30.06.2018	1 070	5 512	6 582

Amortisation and impairment charges	Patents, licences, software	Other intangible assets	Total
Amortisation and impairment charges as at 01.01.2017	508	964	1 472
Acquisition	333	551	884
Amortisation and impairment charges as at 31.12.2017	841	1 515	2 356
Amortisation and impairment charges as at 01.01.2018	841	1 515	2 356
Acquisition	141	276	417
Settlement/change of classification	(8)	-	(8)
Amortisation and impairment charges as at 30.06.2018	974	1 791	2 765

Net value			
01.01.2017	436	4 548	4 984
31.12.2017	190	3 997	4 187
01.01.2018	190	3 997	4 187
30.06.2018	96	3 721	3 817

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

14. Impairment charges on receivables from leasing agreements

Change in balance of impairment charges on leasing agreements	30.06.2018	31.12.2017
Opening balance	(1 086)	(3 365)
Increases	(225)	(850)
Cancellations	253	3 129
Closing balance	(1 058)	(1 086)

15. Impairment charges on receivables from loan agreements

Change in balance of impairment charges on loans	30.06.2018	31.12.2017
Opening balance	(539)	(552)
Cancellations	-	13
Closing balance	(539)	(539)

16. Equity

	30.06.2018	31.12.2017
Opening number of shares	3 149 200	3 149 200
Closing number of shares (fully paid up)	3 149 200	3 149 200

Equity as at	30.06.2018	Number of shares (in items)	Nominal value per share (in PLN)	Balance sheet value (in PLN k)
A-series shares		3 149 200	5	15 746
Total number of shares		3 149 200		
Nominal value of share capital				15 746
Share capital resulting from hyperinflation revaluation				21 982
Total share capital				37 728
Supplementary capital				67 613
Reserve capital				44 843
Total other capital				112 456
Defined benefits plan revaluation reserve				(89)
Retained profits				24 571
Total equity				174 666

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

Ownership structure of share capital as at 30.06.2018

Shareholder	Number of shares	Nominal value of shares	Shareholding (%)
Krzysztof Kwiatkowski	1 033 499	5 167	32,82%
VALUE FIZ	334 747	1 674	10,63%
Bank Gospodarstwa Krajowego	311 355	1 557	9,89%
Waldemar Organista	273 146	1 366	8,67%
Familiar S.A. SICAV - SIR	271 526	1 358	8,62%
Zolkiewicz&Partners Inwestycji	157 740	789	5,01%
State Treasury	157 466	787	5,00%
Other shareholders	609 721	3 049	19,36%
	3 149 200	15 746	100,00%

Dividends

During 6 months 2018, the dominant entity did not pay any dividend

17. Profit per share

	30.06.2018	30.06.2017
Opening number of shares	3 149 200	3 149 200
Closing number of shares	3 149 200	3 149 200
Average weighted number of issued shares	3 149 200	3 149 200

	30.06.2018	30.06.2017
Net profit distributed amongst shareholders of dominant entity (in PLN k)	4 936	17 257
Number of shares	3 149 200	3 149 200
Main profit per share (PLN/share)	1,6	5,5

Elektrociepłownia "Będzin" S.A. Capital Group

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18. Employee benefits

Change in current value of liabilities under defined benefits	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017
Opening balance of liabilities under defined benefits	4 580	4 165
Current employment cost	60	125
Interest cost	63	109
Defined benefits plan revaluation reserve recognized in other comprehensive income	(44)	483
Plan limitation/ liquidation	-	(4)
Benefits paid	(222)	(298)
Closing balance of liabilities under defined benefits	4 437	4 580

Change in current value of liabilities under other employee benefits	01.01.2018 - 30.06.2018	01.01.2017 - 31.12.2017
Opening balance of liabilities under other employee benefits	9 479	8 424
Current employment cost	2 092	7 402
Interest cost	46	116
Other benefits plan revaluation reserve recognized in profit or loss in current reporting period	57	(1 336)
Benefits paid	(3 832)	(5 127)
Released	(3 685)	-
Closing balance of liabilities under other employee benefits	4 157	9 479

Change in balance of liabilities under employee benefits	Service anniversary awards	Retirement and disability severance payments	Other liabilities	Total
As at 01.01.2018	2 714	3 590	7 755	14 059
Raised	102	113	1 698	1 913
Utilised	(28)	(222)	(3 456)	(3 706)
Released	142	-	(3 770)	(3 628)
Revaluation of provisions recognized in other comprehensive income	-	(46)	2	(44)
As at 30.06.2018	2 930	3 435	2 229	8 594
long-term provisions	2 380	2 787	387	5 554
short-term provisions	550	648	1 842	3 040

Change in balance of liabilities under employee benefits	Service anniversary awards	Retirement and disability severance payments	Other liabilities	Total
As at 01.01.2017	4 087	2 886	5 616	12 589
Raised	1 583	209	5 956	7 748
Utilised	(1 907)	(170)	(3 348)	(5 425)
Released	(1 049)	-	(287)	(1 336)
Revaluation of provisions recognized in other comprehensive income	-	665	(182)	483
As at 31.12.2017	2 714	3 590	7 755	14 059
long-term provisions	2 401	2 929	3 975	9 305
short-term provisions	1 000	661	3 093	4 754

19. Provisions

Provisions	Provision for CO2 emission allowance	Other provisions	Total
Value at 01.01.2018	12 884	5 762	18 646
Raised	14 595	263	14 858
Utilised	(12 884)	(483)	(13 367)
Change of classification	-	(29)	(29)
Value at 30.06.2018	14 595	5 513	20 108
long-term	-	3 389	3 389
short-term	14 595	2 124	16 719

20. Fair value of financial instruments

The fair value of financial instruments for which no active market exists is determined using appropriate measurement techniques. When selecting the appropriate methods and assumptions, the Group is guided by professional judgment.

Derivative financial instruments designated as part of hedging relationships - cash flow hedge, including:	Balance sheet value		Fair value	
	30 June 2018 unexamined	30 June 2017 unexamined	30 June 2018 unexamined	30 June 2017 unexamined
Interest rate swaps	-236	-291	-236	-291
Total	-236	-291	-236	-291

21. Contractual liabilities raised to purchase tangible fixed assets and intangible assets

There are no such liabilities.

22. Explanations concerning seasonal or cyclical profile of the Group's activity

Activities of Elektrociepłownia "Będzin" S.A. Group as the producer of heat and electricity are seasonal. In individual reporting periods, there are differences in the volume of heat and electricity produced, which is caused by the production volumes' dependence on the seasons and on the weather conditions. In particular, that is typical for production and sale of heat, which during the autumn and winter time is substantially higher.

There is no seasonal effect in the financial segment.

23. Conditional liabilities and proceedings pending before court

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

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

On 19 November 2014, Energetyczne Towarzystwo Finansowo- Leasingowe Energo-Utech SA brought a case for the payment of claim arising from recourse factoring, said claim of PLN 679.5k and the case is pending. No court cases against the company are pending.

On 30 January 2015, an order for payment under the writ of payment proceedings was issued thereby obliging the factorer and the debtor to pay to Energetyczne Towarzystwo Finansowo- Leasingowe ENERGO – UTECH SA the debt and the interest accrued till the payment date.

The factorer did not appeal against the said order for payment and on 11 June 2015 a motion was filed to initiate the debt collection proceedings. The debt collection proceedings carried out by Court Bailiff was discontinued. The debt collection proved ineffective.

The debtor's company appealed against the order for payment and the related court proceedings have been pending before the District Court in Poznań. The proceedings are pending. On 17 May 2017, the District Court in Poznań, 9th Commercial Division, passed a judgement for dismissal.

On 19 July 2017, Energetyczne Towarzystwo Finansowo – Leasingowe Energo – Utech appealed against the judgement passed by the District Court in Poznań, 9th Commercial Division on 17 May 2017.

On 2 October 2017, the debtor responded to the said appeal. At this stage it is not possible to determine the final decision on the case related to the assessment of financial implications. The disputable debt is covered by impairment charge.

24. Property collateral

In the Group, there is collateral established on the Group's property in effect of, amongst others, agreement on loan earmarked for financing the investment of Elektrociepłownia BĘDZIN Sp. z o.o. of 16 December 2014.

The said collateral established on the Group's property includes the following:

- First charge joint mortgage of PLN 196,984k on real estates of Elektrociepłownia BĘDZIN Sp. z o.o. located in Sosnowiec, for which Regional Court in Sosnowiec, 6th Division of Land and Mortgage Registers keeps land and mortgage registers no. KA1S/00033883/2 and KA1S/0034647/3 as well as real estates located in Będzin, for which Regional Court in Będzin, 5th Division of Land and Mortgage Registers keeps land and mortgage register no. KA1B/00016873/8,
- Registered pledge on the collection of assets and rights defined as the collection of all tangible assets and rights of the enterprise i.e. Elektrociepłownia BĘDZIN Sp. z o.o. (excluding rights to bank accounts of Elektrociepłownia BĘDZIN Sp. z o.o., rights subject to agreements on the assignment of rights to secure agreements made by and between Bank Polska Kasa Opieki S.A. and Elektrociepłownia BĘDZIN Sp. z o.o., as well as real estates and other rights which, in the light of the law, cannot be subject to registered pledge within the meaning of the catalogue of description of registered pledge assets representing Appendix 1 to Ordinance of the Minister of Justice of 15 October 1997 on detailed organisation of the manner of keeping the register of pledges, representing the collection of assets and rights of a single economic unit, even if its composition is changeable as per the Act on Pledge – the registered value of the pledge is PLN 123,808k,
- Contracts on the sale of heat by Elektrociepłownia BĘDZIN Sp. z o.o. – agreement on assignment of rights for the purpose of security,
- Contracts on the sale of electricity and other contracts generating revenues in excess of PLN 200k per annum for Elektrociepłownia BĘDZIN Sp. z o.o. – agreements on assignment of rights for the purpose of security,
- Authorisations to bank accounts of Elektrociepłownia BĘDZIN Sp. z o.o.
- Loans financing the agreements on financial lease are secured with blanc bill of exchange, mortgages, registered pledges, reposessions of fixed assets and transfers of receivables for the benefit of banks.

25. Transactions with connected entities

Transactions with persons holding managerial or supervisory positions

During the reporting period ending on 30 June 2018, no advances, loans, credits, guarantees or other liability-raising agreements.

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

Elektrociepłownia "Będzin" S.A. Capital Group

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(as per IAS 34 "Interim Financial Reporting", in PLN k)*

	30.06.2018	30.06.2017
Base salary	249	233
Bonus	367	473
	616	706

As at 30.06.2018	Receivables	Liabilities
MDW Glanowski	-	10 886
Energo Biomasa sp. z o. o.	6 456	-
Autodirect S.A.	30	-
Power Engineering S.A.	729	-
	7 215	10 886

Period 01.01.2018- 30.06.2018	Sales of products	Other income
Energo Biomasa sp. z o. o.	130	-
Autodirect S.A.	10	-
Power Engineering S.A.	4	-
	144	-

Period 01.01.2018- 30.06.2018	Purchase of services	Other purchase
MDW Glanowski	260	-
	260	-

26. Events after the balance sheet date

According to the resolution adopted on 28 June 2018, the Extraordinary General Meeting of Shareholders of Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH SA decided to appoint Grzegorz Kwiatkowski as the Management Board Member. The resolution came into force and effect on 1 July 2018.

On 29 June 2018, Adam Andrzejewski resigned from the position of the Vice-President of the Management Board of Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH SA, effective as of 1 July 2018.

The Company's Management Board, in accordance with the resolution no. 52/2018 of 13 July 2018 appointed Adam Andrzejewski as the Company's Proxy.

On 13 July 2018, having considered the request of a potential investor to extend the negotiation exclusivity, the Management Board of the Issuer, Elektrociepłownia Będzin S.A., did not accept the request and adopted a resolution to end the process of disposing 100% shares in the subsidiary, Elektrociepłownia BĘDZIN Sp. z o. o.

Agreement on the purchase of shares in Elektrociepłownia BĘDZIN Sp. z o.o. was not signed. Therefore, the negotiation process was closed. The Company's shareholders were informed about the event in the stock exchange report no. 19/2018 of 13 July 2018.

27. Manpower

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

	30.06.2018	31.12.2017
Production staff	90	133
Office staff	76	90
	166	223

28. Approval of consolidated financial statements

These condensed interim consolidated financial statements were produced and approved for publication by the Management Board of the dominant entity on 14 September 2018.



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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.

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2018

To the Shareholders of Elektrociepłownia "Będzin" S.A.

Introduction

We have reviewed the accompanying 30 June 2018 condensed consolidated interim financial statements of Elektrociepłownia "Będzin" S.A., with its registered office in Poznań, ul. Bolesława Krzywoustego 7 ("the condensed consolidated interim financial statements"), which comprise:

- the condensed consolidated statement of financial position as at 30 June 2018,
- the condensed consolidated statements of profit or loss for the three-month and six-month periods ended 30 June 2018,
- the condensed consolidated statements of profit or loss and other comprehensive income for the three-month and six-month periods ended 30 June 2018,
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2018,
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2018, and
- notes to the interim financial statements.

Management of the parent company is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements, based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent*

1



Auditor of the Entity as adopted by the resolution dated 5 March 2018 of the National Council of Certified Auditors as the National Standard on Review 2410. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with National Standards on Auditing or International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at 30 June 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union, and in accordance with the adopted accounting principles (policy).

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

14 September 2018

Signed on the Polish original

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

Poznań, 14 September 2018

**Statement of the Management Board of Elektrociepłownia „Będzin” S.A.
on the reliability of the preparation of the financial statements of the
Elektrociepłownia „Będzin” S.A. Capital Group
for the period from 1 January 2018 to 30 June 2018**

The Management Board of Elektrociepłownia „Będzin” S.A. hereby declares that to its best knowledge – the condensed interim consolidated financial statements for the period from 1 of January 2018 to 30 June 2018 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. Capital Group.

The report of the Management Board of Elektrociepłownia „Będzin” S.A. Capital Group on the Company's operations for the period from 1 January 2018 to 30 June 2018 includes a true description, including the description of the risks associated with the next financial year.

Krzysztof Kwiatkowski - President of the Management Board

September 2018

**Management Board Report
on the activity of
Elektrociepłownia "Będzin" S.A.
Capital Group in H1 2018**

**Elektrociepłownia "Będzin" S.A.
Capital Group**



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INTRODUCTION

The Management Board of Elektrociepłownia Będzin S.A. hereby presents the Management Board Report on Elektrociepłownia "Będzin" S.A. Group Activity for the 1st half of the accounting year 2018. The Report was prepared on the basis of the Regulation of the Minister of Finance of 29 March 2018 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 2018.757, standardised text).

Principles of preparing the 2018 financial statements are included in the explanatory notes to the condensed consolidated interim financial statements produced in accordance with IAS 34 "Interim Financial Reporting".

I. ESSENTIAL INFORMATION ABOUT ELEKTROCIEPŁOWNIA "BĘDZIN" CAPITAL GROUP S.A.

1. Description of organisation and structure of the Capital Group

Elektrociepłownia "Będzin" S.A. is the dominant entity of Elektrociepłownia "Będzin" S.A. Capital Group, encompassing the following entities:

- Elektrociepłownia BĘDZIN Sp. z o.o. with the registered office in Będzin, where the Company holds 100% shares,
- Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. with the registered office in Poznań, wholly owned by the Company,
- Energo – Biomasa Sp. z o.o., where Spółka Energetyczne Towarzystwo Finansowo – Leasingowe Energo Utech S.A. holds 19.99% shares.

On 4 August 2014, the dominant entity became a holding company and has not been involved in any production activity.

The activity in the field of cogeneration through combined heat and power (CHP) has been carried out exclusively in Elektrociepłowni BĘDZIN Sp. z o.o.

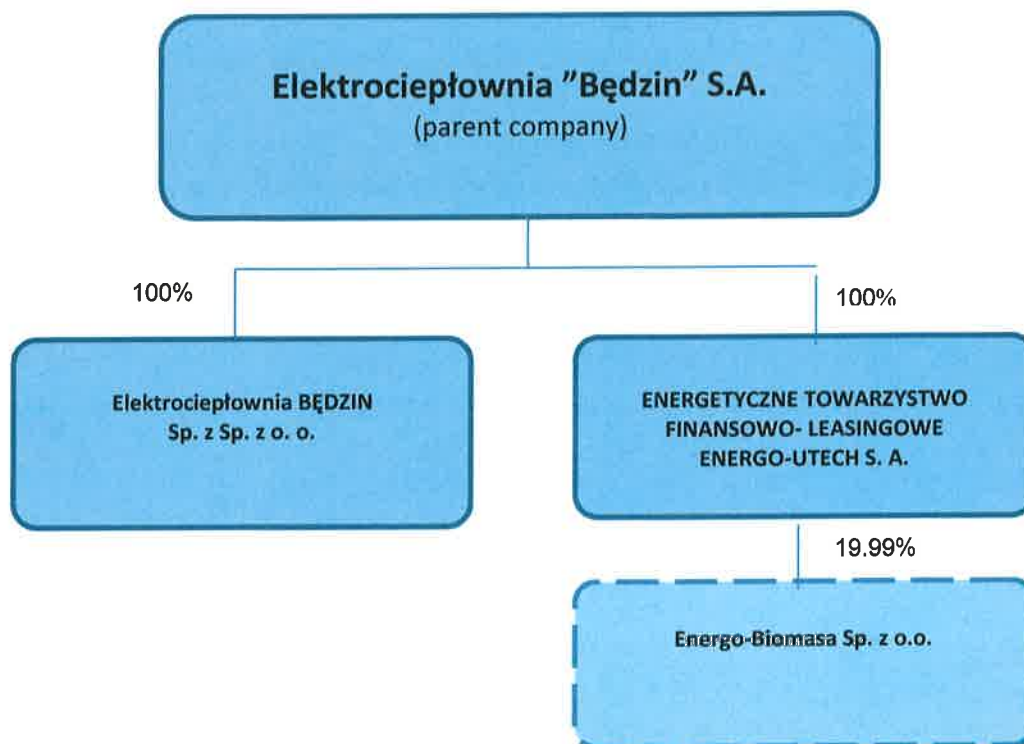
Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. focuses on providing financial services, primarily leasing.

The activity of Energo-Biomasa Sp. z o.o. involves production of pellets.

As stipulated by art. 55 of the Accounting Act, the Capital Group produces consolidated financial statements of the Capital Group in accordance with the International Financial Reporting Standards approved by the European Union and in accordance with the Regulation of the Minister of Finance of 29 March 2018 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 2018.757, standardised text), based on financial statements of units within the Capital Group. Elektrociepłownia "Będzin" S.A. Group consolidates the following entities:

- a/ full consolidation method – Elektrociepłownia BĘDZIN Sp. z o.o. and Energetyczne Towarzystwo Finansowo – Leasingowe S.A. ,
- b/ ownership rights method – Energo-Biomasa Sp. z o. o. (the company is co-controlled).



2. Changes in the organisation of the Capital Group

Between 1 January 2018 and 30 June 2018, there were some changes in the organisation of Elektrociepłownia „Będzin” S.A. Capital Group.

On 16 April 2018, the General Meeting of Shareholders of ENERGO-BIOMASA spółka z o.o. adopted a resolution to raise the Company's share capital to PLN 2,500.00k, which led to lowering the share held by Energetyczne Towarzystwo Finansowo-Leasingowego Energo-Utech S.A. to 19.99%. The capital raise was registered on 6 September 2018.

On 16 April 2018, the Company Deed of ENERGO-BIOMASA spółka z o.o. was amended and in effect, the company is co-controlled by partners.

Indication of the effects of changes in the structure of the dominant entity.

Changes in the structure of the Elektrociepłownia "Będzin" Group SA., caused no changes in the organizational structure of the Parent Company.

II. COMPOSITION OF THE MANAGING AND SUPERVISING BODIES OF THE CAPITAL GROUP

The organs of the Parent Company - Elektrociepłownia "Będzin" S.A

Management Board

In H1 2018, Elektrociepłownia "Będzin" S.A. has been managed by the Management Board of the ninth term of office, composed of the following sole member:

Krzysztof Kwiatkowski - President of the Management Board

Supervisory Board

From 1 January to 30 June 2018, the Supervisory Board of the ninth 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 Głanowski - 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,

On 29 June 2018, Mr Grzegorz Kwiatkowski resigned from the position in the Supervisory Board, therefore since 1st of July 2018, the Supervisory Board of the ninth term of office composed of the following individuals:

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

The ninth term of office of the Supervisory Board shall be 5 years and shall expire on the day of convening the Annual General Meeting in 2022.

2. Authorities of subsidiaries

Management Board - Elektrociepłownia BĘDZIN Sp. z o. o.

As at 30 June 2018, the Management Board of Elektrociepłownia BĘDZIN Sp. z o. o. was composed of the following individuals:

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

Management Board of Energetyczne Towarzystwo Finansowo-Leasingowego Energo-Utech S.A.

As at 30 June 2018, the Management Board of Energetyczne Towarzystwo Finansowo - Leasingowe Energo-Utech S.A. was composed of the following individuals:

1. Krzysztof Kwiatkowski - President of the Management Board,

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

On 29 June 2018, Mr Adam Andrzejewski resigned from the position of Vice-President of the Management Board, effective from 1 July 2018.

According to the resolution adopted on 28 June 2018, the Extraordinary General Meeting of Shareholders decided to appoint Mr Grzegorz Kwiatkowski as the Management Board Member. The resolution came into force and effect on 1 July 2018.

The Company's Management Board in its resolution no. 52/2018 of 13 July 2018 appointed Mr Adam Andrzejewski as the Company's Proxy.

Management Board – ENERGO BIOMASA Sp. z o. o.

As at 30 June 2018, the Management Board of ENERGO BIOMASA Sp. z o. o. was composed of the following individuals:

1. Witold Niedzielski - President of the Management Board,
2. Zofia Fabiach - Vice-President of the Management Board.

3. Main shareholders of the dominant entity

According to information available to the Dominant Entity, the shareholders holding over 5% of the share capital and the same % of votes at the Annual General Meeting are as follows:

Specification	As at 30 May 2018.***				As at 14 September 2018.***				C h a n g e	
	shares	votes	shares%	votes%	shares	votes	shares%	votes%	shares	votes
Krzysztof Kwiatkowski*	1 005 499	1 005 499	31,93	31,93	1 033 499	1 033 499	32,82	32,82	28 000	0
Agio Funds TFI S.A.	334 747	334 747	10,63	10,63	334 747	334 747	10,63	10,63	0	0
Bank Gospodarstwa Krajowego	311 355	311 355	9,89	9,89	311 355	311 355	9,89	9,89	0	0
Waldemar Organista	313 146	313 146	9,94	9,94	273 146	273 146	8,67	8,67	0	28 000
Familiar S.A. SICAV - SIR	271 526	271 526	8,62	8,62	271 526	271 526	8,62	8,62	0	0
Żółkiewicz & Partners Inwestycji w Wartość FIZ	157 740	157 740	5,01	5,01	157 740	157 740	5,01	5,01	0	0
Skarb Państwa	157 466	157 466	5,00	5,00	157 466	157 466	5,00	5,00	0	0
Summary	2 551 479	2 551 479	81,02	81,02	2 551 479	2 551 479	81,02	81,02	28 000	28 000

* Together with subsidiaries,

** Information as at the date of publishing the interim statement for Q1 2018.

*** Information as at the date of publishing the interim statement for H1 2018.

4. Shareholding of persons holding managerial and supervisory positions

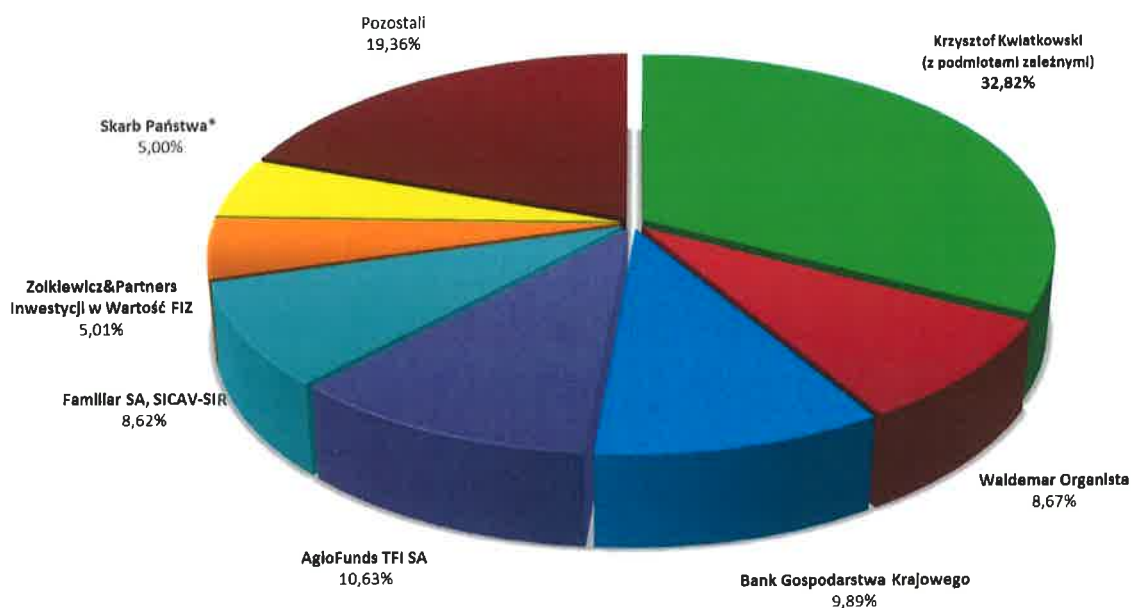
Specification	As at 30 May 2018.***				As at 14 September 2018.***				C h a n g e	
	shares	votes	shares%	votes%	shares	votes	shares%	votes%	shares	votes
Krzysztof Kwiatkowski*	1 005 499	1 005 499	31,93	31,93	1 033 499	1 033 499	32,82	32,82	28 000	0
Waldemar Organista	313 146	313 146	9,94	9,94	273 146	273 146	8,67	8,67	0	28 000
Podsumowanie	1 318 645	1 318 645	41,87	41,87	1 318 645	1 318 645	41,87	41,87	28 000	28 000

* Together with subsidiaries,

** Information as at the date of publishing the interim statement for Q1 2018.

*** Information as at the date of publishing the interim statement for H1 2018.

5. Shareholders structure



As at 14 September 2018

III. INFORMATION ABOUT MAIN PRODUCTS

Products generated and manufactured by the Capital Group include heat and electricity, as well as, biomass pellets.

The activity consisting in generation of heat and electric power is carried out by the subsidiary, i.e. Elektrociepłownia BĘDZIN Sp. z o.o.

The production structure of the Capital Group in H1 2018 versus H1 2017 was as follows:

Production	Unit	30 06 2018	30 06 2017
Heat in water	GJ	1 201 869	1 511 335
Heat in steam	GJ	141 415	159 715
Electric power	MWh	201 467	241 074

The quantitative heat and electric power sale of the Capital Group in H1 2018 versus H1 2017 was as follows:

Sale	Unit	30 06 2018	30 06 2017
Heat	GJ	1 204 405	1 520 031
Electric Power from own production	MWh	166 974	204 075

Income from the sale of heat and electric power of the Capital Group in H1 2018 versus H1 2017 was as follows:

Income from sale in PLN k	H1 2018	H1 2017
Heat	44 771	53 196
Electric power	32 014	32 521

The subsidiary - Energetyczne Towarzystwo Finansowo - Leasingowe Energo-Utech S.A. operates as the service provider of fixed assets leasing and factoring.

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

Revenues(in PLN k)	H1 2018	H1 2017
Revenues from leasing services	10 960	12 018
Revenues from factoring services	924	721
Revenues from rental services	2 365	3 010
Revenues from loans provided	260	562
Other revenues	434	224
Total	14 943	16 534

IV. LOANS

In H1 2018, Elektrociepłownia "Będzin" S.A. as the dominant entity recorded one loan granted by ING Bank Śląski S.A. under Agreement no. 682/2016/00008628/00 on corporate PLN loan for financing an investment and refinancing of incurred capital expenditures of PLN 21 640k (say: twenty one million six hundred forty thousand Polish zloty 00/100).

Spółka Elektrociepłownia „Będzin” S.A. did not provide any loans or credits.

As at 30 June 2018, Elektrociepłownia BĘDZIN Sp. z o.o. has a loan as a party to Leasing Agreement of 22 December 2014 with Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. regarding flue gas desulphurisation installation for boilers: OP-140 no. 6, OP-140 no. 7 and WZP-70 no. 5 admitted for use on 30 November 2016, flue gas denitrogenation installation for boiler: OP 140 no. 7 30 October 2017 flue gas denitrogenation installation for boiler: OP 140 no. 6 and flue gas denitrogenation installation for boiler: WP-70 no. 5 on 27 March 2018, with the total value of the leased asset of PLN 65,415k .

In relation to the foregoing Agreement, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. is a party to loan agreement on financing the investments of Elektrociepłownia BĘDZIN Sp. z o.o. of 16 December 2014 signed with Bank Polska Kasa Opieki S.A.

The Agreement is for term loan of up to PLN 94,491.83k. The term loan maturity date has been scheduled for 30 June 2026.

In H1 2018, Elektrociepłownia BĘDZIN Sp. z o.o. did not record any bank loans and credits.

In its business activity, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. avails of loans and other forms of financing business activity.

V. MAJOR COURT CASES

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

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

On 19 November 2014, Energetyczne Towarzystwo Finansowo- Leasingowe Energo-Utech SA brought a case for the payment of claim arising from recourse factoring totalling PLN 679.5k and the case is pending. No court cases filed against the company are pending.

No court cases, either filed by or against Energo-Biomasa Sp. z o.o. (subsidiary) are pending.

VI. OTHER INFORMATION

1. Information about transactions made with connected entities

Elektrociepłownia „Będzin” S.A. and its subsidiaries did not make any non-arm’s length transactions with connected entities.

2. Information about bonds and warranties

During the period covered by these statements, Elektrociepłownia Będzin S.A. and its subsidiaries did not grant any bonds or guarantees and other forms of security applied.

3. Promotion - advertising activity

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

In H1 2018, Elektrociepłownia BĘDZIN Sp. z o.o. acted as the sponsor and patron of various cultural and scientific events, mostly on the local market.

The Company continues the agreement with Wyższa Szkoła Biznesu in Dąbrowa Górnicza [Business College], whereby educational, scientific and research & development projects are implemented.

In H1 2018, the Company participated in the "International Scientific Conference – Innovations and Entrepreneurship, Theory and Practice" organised by WSB Academy in Dąbrowa Górnicza.

Elektrociepłownia BĘDZIN Sp. z o.o. was engaged in organising a new year meeting of entrepreneurs and Tychy Entrepreneurship Leader Gala organised by the District Chamber of Industry and Trade in Tychy.

In its support for education, Elektrociepłownia BĘDZIN Sp. z o.o. continued cooperation with Zespół Szkół Specjalnych no. 2 in Sosnowiec [Special School Group] and was again involved in the organisation of the "Regional competition of knowledge about health". The Company's promotional-advertising activity includes sponsoring of Zagłębie Museum [Upper Silesian Coal Basin Museum] in Będzin and Sosnowiec Museum – the Schoen Palace.

In the reported period, Elektrociepłownia BĘDZIN Sp. z o.o. actively participated in organising Będzin Days and Sosnowiec Days events.

Elektrociepłownia BĘDZIN Sp. z o.o. supports sports and healthy lifestyle events by engaging in numerous sports initiatives. The Company is one of the sponsors of MKS Będzin volleyball club and Zagłębie Sosnowiec football club. The Company supported organisation of Wyrski Run, which was organised for the 5th time.

All the above actions performed by the Company are compliant with the pro-social policy adopted by the Company and they aim at maintaining the good relationship with the local community.

4. Factors which in the opinion of the Dominant Entity will impact the performance in the future reporting periods

The factor that will determine the performance of the Parent Entity in the future is the completion of the investment aimed at the construction of a flue gas denitrification installation for each of the Company's boilers. Currently, tests are underway to confirm the possibility of permanent work while maintaining the work regimes [BAT] that will apply as of 1 January 2019.

Elektrociepłownia "Będzin" S.A. as the dominant entity is the beneficiary of income from the shares and interests held in the Subsidiaries and such income depends on the financial performance of said Subsidiaries.

VII. ASSESSMENT OF THE FINANCIAL RESOURCE MANAGEMENT

Financial performance of the Capital Group

Financial performance	Unit	Period	
		I-VI 2018 PLN k	I-VI 2017 PLN k
EBITDA*	PLN k	23 094	41 639
Profit on operating activity	PLN k	13 323	32 029
Profit/loss on financial activity	PLN k	-6 843	- 10 378
Profit before tax	PLN k	5 975	21 745
Income tax	PLN k	1 039	4 488
Profit after tax	PLN k	4 936	17 257

*EBITDA = profit on operating activity + amortisation

The Group's EBITDA for H1 2018 significantly decreased versus the corresponding period of the last year due to a substantial increase in prices of CO₂ emission allowances. The market price of CO₂ emission allowances increased from EUR 5.02 as at 30 June 2017 to EUR 14.95 as at 29 June 2018.

In H1 2018, the Capital Group generated net profit of PLN 4 936k.

The Company's Management Board does not anticipate the occurrence of any major risk threatening the continuity of business operations of Elektrociepłownia "Będzin" S.A. Capital Group.

VIII. INVESTMENT ACTIVITY

1. Acquisition of securities

In H1 2018, Elektrociepłownia "Będzin" S.A. has not acquired any shareholding.

2. The Capital Group's investments in the production infrastructure

The Subsidiary - Elektrociepłownia BĘDZIN Sp. z o.o – carries out investments enabling compliance with environmental regulations and facilitating growth in the electric power production output. They include in particular:

- construction of flue gas desulphurisation and denitrification installation, which enable the Company's operations after 1 January 2016. On 5th of March 2018 the last stage of the investment was completed and the equipment was made available for use.
- modernisation of Water Preparation Station, which contributes to improved technical and economic efficiency of the water preparation processes. On 28th of February 2018 the station was handed over and approved for use.
- purchase and assembly of new air-conditioning equipment – the final acceptance and takeover made on 29 June 2018.

Between 1 January and 30 June 2018, Elektrociepłownia Będzin Sp. z o.o. performed investment tasks worth PLN 5 495.14k.

Between 1 January and 30 June 2018, Elektrociepłownia BĘDZIN Sp. z o.o. completed investment tasks for PLN 5,445.14k. The amount does not include the costs of financing the investment "construction of a desulphurisation and denitrification installation at Elektrociepłownia BĘDZIN Sp. z o.o. " due to external financing (leasing agreement no. 64/F/ENUT/2014) and the costs of EM & CA reports related to leasing services for the period from 1 January to 30 June 2018.

The investments activity planned in H2 2018 will be carried out by Elektrociepłownia BĘDZIN Sp. z o.o. and will encompass the adjustment of production infrastructure to the applicable legal regulations, the reduction of utilisation costs and improvement of reliability of heat and electric power generation.

The Subsidiary - Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. – has not performed any investment activity.

3. Repair activity of the Group

In H1 2018, in Elektrownia BĘDZIN Sp. Zo.o. the value of repair activity totalled PLN 4 378 k, which represents 41% of the planned annual repair costs.

In Q1 2018, the Group performed mainly regular repairs and periodical maintenance of the equipment.

In Q2, the Group performed an overhaul of the 13UCK80 turbine set with the capacity of 81.5 MW. As part of the overhaul process, the OP-140 boiler no. 6 was fully renovated and refurbishment of the OP-140 boiler no. 7 commenced to ensure their availability in the next heating season.

In H1 2018, the Group also started demolition of the boiler WP-120 no. 8.

In H1 2018, the repair activity proceeded in accordance with the schedule.

Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. (subsidiary) has not performed any repair activity.

4. Characteristics of external and internal factors significant to the development of the Capital Group

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

Major development factors

Factors significantly influencing the development of the Group include, amongst others, the following:

- macroeconomic situation in Poland and economic situation in the Dąbrowa Basin where the Group operates,
- stances and decisions of state and European administration institution and offices (including the Office of Competition and Consumer Protection, the Energy Regulatory Office and the European Commission),
- standing of the electric and heat power sector and of the financial sector,
- changes in the legal environment, in particular those concerning the tax, trade and natural environment protection regulations.

Environmental requirements

Directive of the European Parliament and of the Council 2010/75/EU of 24 November 2010 on industrial emissions (IED) introduces new, more conservative environment protection requirements effective as of 1 January 2016.

Given the new environmental requirements, which enable the Company's operations after 1 January 2016, Elektrociepłownia BĘDZIN Sp. z o.o. participates in the Interim National Plan allowing to spread the indispensable investments over time.

On 17 August 2017, the Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 was published thus establishing best available techniques (BAT) conclusions, under Directive 2010/75/EU of the European Parliament and of the Council, for large combustion plants.

Publication of a legally binding document has commenced a 4-year period for the adaptation of the plants to the requirements set out in the foregoing document. Therefore, the requirements set out in the BAT conclusions will apply as of 17 August 2021.

Free of charge CO₂ emission allowances

In accordance with the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community, new principles of allocation of free of charge CO₂ emission allowances apply in the settlement period 2013 – 2020.

During that period, the free of charge CO₂ emission allowances were reduced versus the allowances applicable in the period 2005-2012. The number of allocated free of charge CO₂ emission allowances for heat generating installations is reduced every year until 2020, which will be the last year with free of charge allowances.

Throughout 2013-2020, the heat generated by an installation is verified every year. When the generated heat volume significantly decreases, the free of charge allowances applicable going forward are adjusted.

The allocated free of charge allowances are insufficient to settle the CO₂ emission, which triggers the need to buy additional allowances on the free market.

Competition risk

Heat and power industry

The heating market in Zagłębie Dąbrowskie (the Dąbrowa Basin) is highly competitive, which stems from the presence of numerous heat generation sources supplying heat to off-takers via TAURON Ciepło Sp. z o.o. heating system running throughout all cities of Zagłębie Dąbrowskie.

The main competitor of Elektrociepłownia BĘDZIN Sp. z o.o. on the local market are sources owned by TAURON Wytwarzanie S.A. (Elektrownia Łagisza) and to TAURON Ciepło Sp. z o.o. (ZW Nowa and ZW Katowice), both companies within TAURON Polska Energia S.A. Group.

A key element of competitiveness on the heat market of Zagłębie Dąbrowskie is represented by the technical and economic potential to transmit heat. In its development plans, the Company takes into consideration the fact that the main heat distributor in the region is TAURON Ciepło Sp. z o.o., controlled by TAURON Polska Energia S.A.

However, taking into consideration the fact that some generation plants undergo derogation, which means their phasing-out in the years 2019–2022, the Company is of the opinion that significant changes in the heating market will not take place without establishment of new generation plants in the Silesian-Basin conurbation. Also the progressing liquidation of low

emission and the heat supply will in effect lead to increased heat demand. Therefore, taking into consideration long-term processes, the Company also contemplates its increased competitiveness in the long run, not only through pricing competitiveness but also through acquisition of end off-takers.

A significant element constraining competition on the heating market may be CO₂ emission allowances allocated free of charge, whose allocation to sources supplying heat to Zagłębie Dąbrowskie market in the years 2013-2020 will be insufficient, thus likely to reduce interest in searching for new heat sale markets.

Financial sector

The market of financial services interweaves with the general economic climate and activity of businesses. Even though in the recent years, the growth dynamics of the market on which Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. operates is high and outpaces Poland GDP growth rate, potential fluctuations in the market sentiment must be taken into consideration as they may lead reduced investments and thus lower investment funding needs.

The position of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. is favourable due to the Company's power sector specialisation and expertise and said power sector will have to invest in development of new capacity and renovation of the existing capacity, regardless the market climate.

Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. mitigates that risk by diversifying its trade offer and by introducing new products of high growth potential.

IX. NATURAL ENVIRONMENT PROTECTION

1. Emission of pollution to the atmosphere

The Group's subsidiary, Elektrociepłownia BĘDZIN Sp. z o.o., is a plant generating electric power and heat. In H1 2018, it generated electric power and heat through power combustion of hard coal. Electric power is produced through highly efficient cogeneration.

Hard coal combustion causes gas emission and dust emission to the atmosphere. The emission level depends on both, the quality of the combustion fuel, as well as, efficiency of protection equipment of the installation.

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

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

In 2016, the flue gas desulphurisation installation was commissioned, thus enabling the Group's compliance with the emission standards set out in the new IED Directive. However, due to participation of Elektrociepłownia BĘDZIN Sp. z o.o. in the Transitional National Plan, the desulfurization installation operates at a level that allows compliance with the limits specified in this Plan, instead of strict requirements resulting from the foregoing Directive.

In 2018, the Group completed an investment aimed at the construction of a flue gas denitrification installation for each of the Company's boilers. Currently, installation tests are underway to confirm the possibility of permanent work while maintaining the work regimes [BAT] that will apply as of 1 January 2019.

2. Integrated permit

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

Waste management in the Capital Group is conducted within the framework of the Integrated Permit held by Elektrociepłownia BĘDZIN Sp. z o.o. In H1 2018, there were no deviations from the provisions of the held permit as regards the use of natural environment for the purpose of business activity.

On 11 June 2018, Elektrociepłownia BĘDZIN Sp. z o.o. filed a motion for amending the integrated permit in terms of adjustment to the new BAT regime, in particular for approval of an exception from the BAT conclusions requirements for NOx emission.

3. Trade in emission allowances

In March 2018, the annual report on CO₂ emission in 2017 was audited by a chartered auditor from TÜV Rheinland Polska Sp. z o.o. The annual report was assessed positively.

In 2018, Elektrociepłownia BĘDZIN Sp. z o.o. account in the European Union Register was credited with CO₂ emission allowances for 2018

No European Emission Allowances purchases were recorded in H1 2018.

4. Environment protection audits

Between 18 May and 14 June 2018, the Silesian Provincial Inspectorate for Environmental Protection performed an inspection of compliance with environment protection regulations in terms of emission of gases and dusts to the air. No irregularities were identified during said inspection.

X. STAFFING AND PAYROLL IN ELEKTROCIEPŁOWNIA BĘDZIN S.A. GROUP

Elektrociepłownia BĘDZIN S.A. (dominant entity)

As at 30 June 2018, the manpower was 4 FTEs.

Between 1 January and 30 June 2018, the manpower did not change in Elektrociepłownia "Będzin" S.A.

Elektrociepłownia BĘDZIN Spółka z o.o. (subsidiary)

As at 30 June 2018, the manpower of Elektrociepłownia BĘDZIN Sp. z o.o. was 143 FTEs.

Employees are offered participation in post-graduate studies, with the related expenses covered by the company. Development of staff professional skills translates into increased work efficiency, extended knowledge and expertise and allows to comply with requirements set by the market.

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

As at 30 June 2018, the manpower of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. was 19 FTEs.

Employees are offered participation in various training sessions, with the related expenses covered by the company. Development of staff professional skills translates into increased work efficiency, extended knowledge and expertise and allows to comply with requirements set by the market.

ENERGO – BIOMASA Sp. z o.o. (subsidiary)

As at 30 June 2018, the manpower in ENERGO – BIOMASA Sp. z o.o. was 58 FTEs.

Krzysztof Kwiatkowski - President of the Management Board

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14 September 2018.