

Poznań, 25 April 2019

Dear Sirs and Madams,  
Dear Shareholders,

I am pleased to present to you the sixth report summarizing the business operations of Elektrociepłownia "Będzin" SA. This time for the financial year 2018.

The Company may deem the past year very successful in terms of building the value of the Group in which the Company acts as the parent entity conducting capital operations and exercising corporate governance over the subsidiaries. Within the corporate governance we focus mainly on investment operations in the companies of Elektrociepłownia "Będzin" SA Group. We make every endeavour for the intra-group transactions and the development of new projects to generate a new, higher quality and the Company's value.

The business model of Elektrociepłownia "Będzin" S.A. strives towards a holding company that groups companies not only from the energy sector, availing themselves of the financial services, knowledge and support of Energo-Utech S.A. We are continuously working on formulating the Group's development strategy and achieving the goals set. We are actively looking for partners with whom we can carry out new investment projects. In November 2018, we celebrated the 20th anniversary of the Company's presence on the trading floor of the Warsaw Stock Exchange.

Owing to the meetings with investors held in 2018, 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 trusting us.

A significant success of 2018, and at the same time an important step in the expansion of the Group, was a successful completion of the last part of the investment which allows Elektrociepłownia Będzin Sp. z o.o. continuing its operations in a long term perspective. The Group has built and financed an investment project of over PLN 130 m adapting the heat and power plant to environmental protection requirements.

At the turn of 2017 and 2018, a due diligence study of Elektrociepłownia "BĘDZIN" Sp. z o.o. subsidiary was carried out. After the study was completed, the interested investors submitted bids for the purchase of the Company. One investor was invited to the final negotiations. However, due to significant changes in wholesale electricity prices and in prices of CO2 emission allowances, as well as ten years' forecast of these parameters being extremely difficult to estimate, in July 2018 we announced closing of further negotiations. Having regard to the above, the Management Board of Elektrociepłownia "Będzin" S.A. was unable to decide to sell a material asset in 2018 - Elektrociepłownia Sp. z o.o.

Given market conditions and significant changes, the year 2018 was still favourable for the Companies of Elektrownia Będzin S.A. Group. Our 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 Elektorciepłownia Będzin SA, as well as the hard work and the daily efforts of all the employees, with the support of co-operating companies. Hereby, I would like to thank you all very much for this invaluable contribution to the development of the Capital Group.

Sincerely yours,

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

Poznań, 25 April 2019

**Statement of the Management Board pursuant to §70, Section 1, Item 6**  
(on the Reliability of the Financial Statements)  
**and**  
**Information of the Management Board pursuant to §70, Section 1, Item 7**  
(on the Auditing Entity)  
**of the Ordinance of the Minister of Finance dated 29 March 2018.**

In conjunction with § 70, Section 1, Item 6 of the Ordinance of the Minister of Finance on Current and Periodic Information Provided by the Issuers of Securities dated 29 March 2018, I state that:

- to the best of our knowledge, the annual financial statements and the comparable data were prepared in accordance with the applicable accounting principles and they present fairly, reliably and clearly the financial standing of Elektrociepłownia "Będzin" SA and its financial result and that the Company's Management Report presents an actual view of the Company's development and achievements, as well as its situation, including a description of the key risks and threats.

In conjunction with § 70, Section 1, Item 7 of the Ordinance of the Minister of Finance on Current and Periodic Information Provided by the Issuers of Securities dated 29 March 2018, we state that:

- the auditing entity entitled to audit the annual financial statements which audited the financial statements was selected in accordance with the applicable regulations, and members of the auditing team met the conditions to issue an impartial and independent annual audit report from the audit of the annual financial statements in line with the applicable regulations, professional and business ethics standards.

The Company complies with the applicable regulations regarding rotation of the auditing entity and key certified auditor as well as mandatory grace periods.

The Issuer has a policy on selection of the auditing entity and a policy on provision of additional services, other than an audit, including, but not limited to, the services exempted conditionally from the ban on being provided by an auditing entity, for the Issuer by the auditing entity, any entity related to the auditing entity or a member of its network.

Krzysztof Kwiatkowski

President of the  
Management Board

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Poznań, 25 April 2019

**Statement of the Supervisory Board  
pursuant to §70, Section 1, Item 14 8  
of the Ordinance of the Minister of Finance dated 29 March 2018.**

Pursuant to the Ordinance of the Minister of Finance on Current and Periodic Information Provided by the Issuers of Securities and the Conditions for Recognition as Equivalent of Information Required by the Law of a Non-Member State dated 29 March 2018, the Supervisory Board of Elektrociepłownia Będzin SA states as follows:

- the provisions pertaining to the appointment, composition and operations of the Audit Committee, including its members meeting the criteria of independence and requirements as for the knowledge and skills in the Issuer's respective industry, accounting or auditing financial statements, are complied with,
- the Audit Committee performed the tasks assigned to an audit committee pursuant to the applicable provisions.

Janusz Niedźwiecki

.....

Wiesław Głanowski

.....

Waldemar Organista

.....

Wojciech Sobczak

.....

Mirosław Leń

.....

adjusted

## POLISH FINANCIAL SUPERVISION AUTHORITY

## SA-R 2018 Annual Report

(pursuant to § 60 (1) (3) of the Ordinance on Current and Periodic Information)

(for the issuers of securities operating in the manufacturing, construction, trade or service industry)

For the financial year 2018 for the period from 1st Jan 2018 to 31st Dec 2018

and for the previous financial year 2017 for the period from 1st Jan 2017 to 31st Dec 2017

transmitted on: 25th April 2019

<b>ELEKTROCIĘPŁOWNIA BĘDZIN SPÓŁKA AKCYJNA</b>			
(issuer's full name)			
<b>BEDZIN</b>	<b>Energy sector (ene)</b>		
(issuer's abbreviated name)	(sector based on the classification of		
<b>61-144</b>	<b>Poznań</b>		
(post code)	(place)		
<b>Bolesława Krzywoustego</b>	(street)	<b>7</b>	(number)
<b>(+48) 61 227 57 10-11</b>	<b>(+48) 61 227 57 12</b>		
(phone)	(fax)		
<b>ecbedzin@ecb.com.pl</b>	<b>ecbedzin.pl</b>		
(e-mail)	(www)		
<b>625-000-76-15</b>	<b>271740563</b>		
(NIP - Tax Identification No.)	(REGON)		

(auditing entity)

The Annual Report

comprises:

- Report on the Audit of the Annual Financial Statements  
Position of the Managing Body Including an Opinion of the Supervising Body with respect to the
- Report on the Audit of the Annual Financial Statements Issued by an Auditing Entity Including a Qualified, a Negative Opinion or a Refusal to Provide an Opinion
- Statement of the Management Board on the Reliability of the Financial Statements
- Information of the Management Board on Selecting the Auditing Entity
- Statement of the Supervisory Board on the Audit Committee
- Letter from the President of the Management Board
- Annual Financial Statements
- Introduction  Statement of Changes in Equity
- Balance Sheet  Cash Flow Statement
- Profit and Loss Account  Notes
- Management Report (Report on the Issuer's Operations)
- Corporate Governance Statement
- Non-Financial Information Statement
- Non-Financial Information Report
- Assessment of the Supervisory Board regarding the Management Report and the Financial Statements
- Other information provided by AIC

SELECTED FINANCIAL FIGURES	in PLN 000's		in PLN 000's EUR	
	2018	2017	2018	2017
I. Net proceeds from sales of products, goods and materials	3,003	2,444	704	576
II. Profit (loss) on operating activities	1,330	875	312	206
III. Gross profit (loss)	854	867	200	204
IV. Net profit (loss)	118	730	28	172
V. Net cash flows from operating activities	3,191	3,599	748	848
VI. Net cash flows from Investing activities	2,679	3,273	628	771
VII. Net cash flows from financing activities	-6,407	-6,242	-1,502	-1,471
VIII. Net cash flows, total	-537	630	-126	148
IX. Assets, total	153,932	156,355	35,798	37,487
X. Liabilities and provisions for liabilities	61,262	63,803	14,247	15,297
XI. Long-term liabilities	12,355	47,319	2,873	11,345
XII. Short-term liabilities	48,433	16,135	11,263	3,868
XIII. Shareholders' equity	92,670	92,552	21,551	22,190
XIV. Share capital	15,746	15,746	3,662	3,775
XV. Number of shares (items)	3,149,200	3,149,200	3,149,200	3,149,200
XVI. Profit (loss) per one ordinary share (in PLN/EUR)	0.04	0.23	0.01	0.05
XVII. Diluted profit (loss) per one ordinary share (in PLN/EUR)	0.04	0.23	0.01	0.05
XVIII. Carrying value per one share (in PLN/EUR)	29.43	29.39	6.84	7.05
XIX. Diluted carrying value per one share (in PLN/EUR)	29.43	29.39	6.84	7.05

## ANNUAL FINANCIAL STATEMENTS

## BALANCE SHEET

	Notes	in PLN 000's	
		2018	2017
<b>ASSETS</b>			
I. Fixed assets		150,856	152,991
1 Intangible assets, including:	1	5	25
2 Tangible assets	2	554	556
3 Long-term receivables	3 7	19,072	20,605
3.1 From other undertakings		19,072	20,605
4 Long-term investments	4	130,588	130,588
4.1 Long-term financial assets		130,588	130,588
a) In affiliated undertakings, including:		130,588	130,588
-shares in subsidiaries		130,588	130,588
5 Long-term prepayments and accrued income	5	637	1,217
5.1 Deferred income tax assets		637	1,217
II. Current assets		3,076	3,364
1 Short-term receivables	6 7	2,022	1,776
1.1 From other undertakings		2,022	1,776
2 Short-term investments		1,043	1,580
2.1 Short-term financial assets	8	1,043	1,580
a) cash and cash equivalents		1,043	1,580
3 Short-term prepayments and accrued income	9	11	8
<b>Assets total</b>		<b>153,932</b>	<b>156,355</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
I. Shareholders' equity		92,670	92,552
1 Share capital		15,746	15,746
2 Supplementary capital		61,545	60,815
3 Other reserves		15,261	15,261
4 Net profit (loss)		118	730
II. Liabilities and provisions for liabilities		61,262	63,803
1. Provisions for liabilities	11	460	335
1.1. Deferred income tax provision		402	246
1.2. Old-age pension and other benefits provision		26	1
a) long-term		1	1
b) short-term		25	0
1.3. Other provisions:		32	88
a) short-term		32	88
2. Long-term liabilities	12	12,355	47,319
2.1. To other undertakings		12,355	47,319
3. Short-term liabilities	13	48,433	16,135
3.1. To affiliated undertakings		5,801	4,296
3.2. To other undertakings		42,629	11,836
3.3. Special funds		3	3
4. Prepayments and accrued income	14	14	14
4.1. Other long-term prepayments and accrued income		14	14
a) long-term		14	14
<b>Liabilities and Shareholders' Equity total</b>		<b>153,932</b>	<b>156,355</b>
Carrying value		92,670	92,552
Number of shares (items)		3,149,200	3,149,200
Carrying value per one share (in PLN)		29.43	29.39
Diluted number of shares (items)		3,149,200	3,149,200
Diluted carrying value per one share (in PLN)		29.43	29.39

**PROFIT AND LOSS ACCOUNT**

	Notes	in PLN 000's	
		2018	2017
I. Net proceeds from sales of products, goods and materials, including:		3,003	2,444
- from affiliated undertakings		995	332
1. Net proceeds from sales of products	15	3,003	2,444
II. Operating expenses		1,640	1,586
- Depreciation/amortisation		22	22
- Consumption of materials and energy		3	1
- Third party services		644	707
- Taxes and charges, including:		39	40
- Remuneration		753	721
- Social security and other benefits		57	58
- Other sundry expenses		122	37
III. Profit (loss) on sales		1,363	858
IV. Remaining operating income		0	53
1. Other operating income	16	0	53
V. Remaining operating expenses		33	36
1. Other operating expenses	17	33	36
VI. Profit (loss) on operating activities		1,330	875
VII. Financial income	18	2,680	3,035
1. Dividends and share in profits, including:		2,679	2,614
a) from affiliated undertakings, including:		2,679	2,614
- in which the issuer holds an equity interest		2,679	2,614
2. Interest, including:		1	9
3. Profit from disposal of financial assets, including:			213
4. Other			199
VIII. Financial expenses	19	3,156	3,043
1. Interest including:		3,156	3,043
- to affiliated undertakings		231	128
IX. Gross profit (loss)		854	867
X. Income tax	20	736	137
a) the deferred portion		736	137
XI. Net profit (loss)		118	730
Net profit (loss)(on annual basis)		118	730
Weighted average number of ordinary shares (items)		3,149,200	3,149,200
Profit (loss) per one ordinary share (in PLN)		0.04	0.23
Weighted average diluted number of ordinary shares (items)		3,149,200	3,149,200
Diluted profit (loss) per one ordinary share (in PLN)		0.04	0.23

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	in PLN 000's	
	2018	2017
I. Opening balance of shareholders' equity	92,552	91,822
I.a. Opening balance of shareholders' equity reconciled with comparable figures	92,552	91,822
1. Opening balance of the share capital	15,746	15,746
1.1. Closing balance of the share capital	15,746	15,746
2. Opening balance of the supplementary capital	60,815	60,493
2.1. Changes in the supplementary capital	730	322
a) additions (as a result of)	730	322
- (statutory) profit distribution	730	322
2.2. Closing balance of the supplementary capital	61,545	60,815
3. Opening balance of other reserves	15,261	15,261
3.1. Closing balance of other reserves	15,261	15,261
4. Opening balance of retained earnings (losses)	730	322
4.1. Opening balance of retained earnings	730	322
4.2. Opening balance of retained earnings	730	322
a) reductions (as a result of)	730	322
- profit distribution	730	322
5. Net result	118	730

	in PLN 000's	
	2018	2017
a) net profit	118	730
II. Closing balance of shareholders' equity	92,670	92,552
III. Proposed distribution of net profit	118	730
IV. Transfer to supplementary capital	118	730
V. Shareholders' equity after proposed profit distribution (loss coverage)	92,670	92,552

**CASH FLOW STATEMENT**

	in PLN 000's	
	2018	2017
<b>A. Cash flows from operating activities</b>		
I. Net profit (loss)	118	730
II. Total adjustments	3,073	2,869
1. Depreciation/amortisation	22	22
2. Interest and share in profits (dividends)	477	416
3. (Profit) loss on investing activities		-213
4. Change in provisions	125	250
5. Change in receivables	1,953	1,598
6. Change in short-term payables, save for credits and loans	-82	844
7. Change in prepayments and accruals	578	-48
III. Net cash flows from operating activities (I+/-II)- indirect method	3,191	3,599
<b>B. Cash flows from investing activities</b>		
I. Receipts	2,679	3,486
1. From financial assets, including:	2,679	3,486
a) in affiliated undertakings	2,679	3,486
- disposal of financial assets		872
- dividends and share in profits	2,679	2,614
II. Payments		213
1. Purchases of intangible and tangible assets		34
2. For financial assets, including:	0	179
a) In affiliated undertakings	0	179
III. Net cash flows from investing activities (I-II)	2,679	3,273
<b>C. Cash flows from financing activities</b>		
I. Receipts	0	0
II. Payments	6,407	6,242
1. Repayment of credits and loans	3,101	3,381
2. Finance lease payments	178	
3. Interest	3,128	2,861
III. Net cash flows from financing activities (I-II)	-6,407	-6,242
D. Net cash flows, total (A.III +/- B.III +/- C.III)	-537	630
E. Balance sheet change in cash and cash equivalents, including:	-537	630
F. Opening balance of cash and cash equivalents:	1,580	950
G. Closing balance of cash and cash equivalents (F +/- D), including:	1,043	1,580
- with limited disposability	924	928

**NOTES**  
**A. NOTES TO BALANCE SHEET**  
Note 1a

INTANGIBLE ASSETS	in PLN 000's	
	2018	2017
a) other intangible assets	5	25
Intangible assets, total	5	25

Please indicate and account for the amortisation charges on completed development works and amortisation charges on goodwill

CHANGE IN INTANGIBLE ASSETS (BY RESPECTIVE GROUPS)						
in PLN 000's						
	a	b	c	d	e	
	completed development works	goodwill	concessions, patents, licences and the like intangibles, including: - software - computer	other intangible assets	payments on account	intangible assets, total
gross value of intangible assets as per						
a) opening balance						75
b) gross value of intangible assets as per closing balance						75
c) opening balance of (accumulated) amortisation						50
d) amortisation for the period (as a result of)						20
c) closing balance of (accumulated) amortisation						70
opening balance of net value of intangible assets						25
f)						
g) closing balance of net value of intangible assets					5	5



## Note 1 c

INTANGIBLE ASSETS (SHAREHOLDING STRUCTURE)	In PLN 000's	
	2018	2017
a) own	5	25
Intangible assets, total	5	25

## Note 2 a

TANGIBLE ASSETS	In PLN 000's	
	2018	2017
a) property, plant and equipment, including:	554	556
- land (including perpetual usufruct right)	551	551
- other property, plant and equipment	3	5
Tangible assets, total	554	556

## CHANGE IN PROPERTY, PLANT AND EQUIPMENT (BY RESPECTIVE GROUPS)

	in PLN 000's					
	- land (including perpetual usufruct right)	- buildings, premises and civil engineering structures	+ plant and machinery	- means of transport	- other property, plant and equipment	Property, plant and equipment, total
a) opening balance of gross value of property, plant and equipment		565				574
a) closing balance of gross value of property, plant and equipment		565				574
c) opening balance of (accumulated) amortisation						4
d) amortisation for the period (as a result of)						2
c) closing balance of (accumulated) amortisation						6
f) opening balance of impairment losses		14				14
g) closing balance of impairment losses		14				14
h) opening balance of net value of property, plant and equipment		551				556
i) closing balance of net value of property, plant and equipment		551				554

Value of land held in perpetual usufruct is the value administratively determined to define the amount of perpetual usufruct fee. Value of the land held in perpetual usufruct in Sosnowiec was subject to impairment provision on account of being classified as non-arable land. As of 31st December 2018 the impairment provision on property, plant and equipment is PLN 14,000 and it relates to land held in perpetual usufruct constituting non-arable land.

## Note 2 c

PROPERTY, PLANT AND EQUIPMENT AS PER THE BALANCE SHEET (SHAREHOLDING STRUCTURE)	in PLN 000's	
	2018	2017
a) own	554	556
Property, plant and equipment as per the balance sheet, total	554	556

## Note 3 a

LONG-TERM RECEIVABLES	in PLN 000's	
	2018	2017
a) from other undertakings (as a result of), including:	19,072	20,605
- from other undertakings (as a result of)	19,072	20,605
- as a result of a contract for lease with the right to collect fruits	18,677	20,605
- under a contract of non-gratuitous lending for use	395	
Net long-term receivables	19,072	20,605
Gross long-term receivables	19,072	20,605

## Note 3 b

CHANGE IN LONG-TERM RECEIVABLES (AS PER THE SOURCES)	in PLN 000's	
	2018	2017
a) opening balance	20,605	22,365
b) additions (as a result of)	395	
c) reductions (as a result of)	1,928	1,760
- repayment	1,928	1,760
d) closing balance	19,072	20,605

## Note 3 c

LONG-TERM RECEIVABLES (BY CURRENCY)	unit	currency	in PLN 000's	
			2018	2017
a) In the Polish currency			19,072	20,605
Long-term receivables, total			19,072	20,605

## Note 4 a

LONG-TERM FINANCIAL ASSETS	in PLN 000's	
	2018	2017
a) in affiliated undertakings, including:	130,588	130,588
aa) in subsidiaries	130,588	130,588
- shares	130,588	130,588
Long-term financial assets, total	130,588	130,588

## Note 4 b

CHANGE IN LONG-TERM FINANCIAL ASSETS (BY RESPECTIVE GROUPS)	in PLN 000's	
	2018	2017
a) opening balance	130,588	131,247
b) reductions (as a result of)		659
- sale of shares		659
c) closing balance	130,588	130,588

## SHARES IN SUBORDINATED UNDERTAKINGS

in PLN 000's												
a	b	c	d	e	f	g	h	i	j	k	l	
No.	name (firm) of the undertaking and its legal form	registered office	object of the business entity	affiliation type (subsidiary, jointly controlled subsidiary, associated undertaking, with direct and indirect affiliations specified)	the relevant consolidation method/equity method/proportional method or information that the undertaking is not subject to consolidation/by equity method/proportional method	date of control / joint control being taken / start of material influence	value of shares based on acquisition prices	revaluation adjustments (total)	carrying value of shares	percentage share in share capital	share in the total voting rights at a general meeting	specification of the grounds for control / joint control / material influence other than those under j) or k)
1.	Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A.	Poznań	services financial and lease	full subsidiary	full	1st April 2015	49,600		49,600	100.00	100.00	
2.	Elektrociepłownia BĘDZIN Sp. z o.o.	Będzin	heat and power generation	subsidiary	full	24th Feb 2014	80,987		80,987	100.00	100.00	

SHARES IN SUBORDINATED UNDERTAKINGS															
in PLN 000's															
No.	name of the undertaking	undertaking's equity, including:			the remaining shareholders' equity, including:		liabilities and provisions for liabilities of the undertaking, including:		receivables of the undertaking, including:		p	r	s	t	
		- share capital	- supplementary capital	- profit (loss) brought forward	- net profit (loss)	- long-term liabilities	- short-term liabilities	- long-term receivables	- short-term receivables	- undertaking's assets, net proceeds from sales					- value of shares in the undertaking unpaid by the issuer
1.	Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UJTECH S.A.	47,552	22,400	22,812	2,340	2,340	357,787	204,844	150,375	360,804	218,542	142,262	405,338	32,237	
2.	Elektrociepłownia BEDZIN Sp. z o.o.	140,356	76,870	32,692	30,793	238	111,097	41,386	23,524	23,037	23,037	251,453	176,342		

## Note 4 e

SECURITIES, SHARES AND OTHER LONG-TERM FINANCIAL ASSETS (BY CURRENCY)	unit	currency	in PLN 000's	
			2018	2017
a) in the Polish currency			130,588	130,588
Securities, shares and other long-term financial assets, total			130,588	130,588

## Note 5 a

CHANGE IN DEFERRED INCOME TAX ASSETS	in PLN 000's	
	2018	2017
1. Opening balance of deferred income tax assets, including:	1,217	1,170
a) transferred to financial result	1,217	1,170
- provision for financial statements audit	4	3
- provision for transfer pricing documentation	2	
- interest accrued on credit	11	
- interest accrued on debt assumption agreement	3	
- provision for advisory services	11	
- bonds	72	51
- tax loss	1,114	1,114
- provision for retirement severance pay		2
2. Additions	205	218
a) transferred to financial result of the period on account of negative interim differences (as a result of)	205	218
3. Reductions	785	171
a) transferred to financial result of the period on account of negative interim differences (as a result of)	205	171
b) transferred to financial result of the period on account of tax loss (as a result of)	580	
4. Closing balance of deferred income tax assets, total, including:	637	1,217
a) transferred to financial result	637	1,217
- provision for financial statements audit	7	4
- interest accrued on debt assumption agreement	13	3
- interest accrued on credit		11
- provision for transfer pricing documentation		2
- provision for advisory services		11
- provision for retirement severance pay	5	
- bonds	78	72
- tax loss	534	1,114

## Note 6 a

SHORT-TERM RECEIVABLES	in PLN 000's	
	2018	2017
a) receivables from other undertakings	2,022	1,776
on account of taxes, subsidies, customs duties, social security, health insurance and other public levies	1	3
- other	2,021	1,773
Net short-term receivables, total	2,022	1,776
Gross short-term receivables, total	2,022	1,776

## Note 6 b

SHORT-TERM RECEIVABLES FROM OTHER UNDERTAKINGS	in PLN 000's	
	2018	2017
on account of taxes, subsidies, customs duties, social security, health insurance and other	1	3
a) public levies		
b) other, including:	2,021	1,773
- from other undertakings	2,022	1,773
Net short-term receivables from other undertakings, total	2,022	1,776
Gross short-term receivables from other undertakings, total	2,022	1,776

## Note 6 c

CHANGE IN IMPAIRMENT PROVISIONS ON SHORT-TERM RECEIVABLES	in PLN 000's	
	2018	2017
Opening balance	8	8
Closing balance of impairment provisions on short-term receivables	8	8

## Note 6 d

GROSS SHORT-TERM RECEIVABLES (BY CURRENCY)	unit	currency	in PLN 000's	
			2018	2017
a) In the Polish currency			2,022	1,776
Short-term receivables, total			2,022	1,776

## Note 7 a

The Company does not have any material disputable or overdue receivables that have not been covered with impairment provisions. All the receivables the payment of which is jeopardised will be fully covered with an impairment provision (note 6c)

File	Description

## Note 8 a

SHORT-TERM FINANCIAL ASSETS	in PLN 000's	
	2018	2017
a) cash and cash equivalents	1,043	1,580
- cash at hand and in bank	114	647
- cash equivalents	929	933
Short-term financial assets, total	1,043	1,580

## Note 8 b

CASH AND CASH EQUIVALENTS (BY CURRENCY)	unit	currency	in PLN 000's	
			2018	2017
a) In the Polish currency			1,043	1,580
Cash and cash equivalents, total			1,043	1,580

## Note 9 a

SHORT-TERM PREPAYMENTS AND ACCRUED INCOME	in PLN 000's	
	2018	2017
a) other prepayments and accrued income	11	8
- domains, www	1	1
- insurance	8	6
- other	2	1
Short-term prepayments and accrued income, total	11	8

## Note 10 a

SHARE CAPITAL (STRUCTURE)								
in PLN 000's								
Series / issue	Share type	Type of privileges attached to shares	Type of restrictions on shares	Number of shares	Value of series / issue based on the face value	Capital coverage	Date of incorporation	Dividend right (as from the date)
A series	ordinary	ordinary		3,149,200	15,746	conversion*	18th Feb 1998	5th April 1993
Face value per one share (in PLN)		5.00						

\* The Company was formed as a result of conversion of a state-owned enterprise. The Company's shareholders' equity was covered with initial capital and the company's internal funds.

## Note 11 a

CHANGE IN DEFERRED INCOME TAX PROVISION	in PLN 000's	
	2018	2017
1. Opening balance of deferred income tax provisions, including:	246	61
a) transferred to financial result	246	61
- difference between the carrying value and the tax value of property, plant and equipment under a contract of lease with the right to collect fruits	246	61
2. Additions	156	185
a) transferred to financial result of the period on account of positive interim differences (as a result of)	156	185
3. Closing balance of deferred income tax provisions, including	402	246
a) transferred to financial result	402	246

## Note 11 b

CHANGE IN LONG-TERM PROVISION FOR OLD AGE PENSIONS AND RELATED BENEFITS (BY SOURCE)	in PLN 000's	
	2018	2017
a) opening balance	1	1
b) closing balance	1	1

## Note 11 c

CHANGE IN SHORT-TERM PROVISION FOR OLD AGE PENSIONS AND RELATED BENEFITS (BY PURPOSE)	in PLN 000's	
	2018	2017
a) opening balance	0	8
b) additions (as a result of)	25	
c) release (as a result of)		8
d) closing balance	25	0

## Note 11 d

CHANGE IN OTHER SHORT-TERM PROVISIONS (BY PURPOSE)	in PLN 000's	
	2018	2017
a) opening balance	88	15
- financial statements audit	19	15
- transfer pricing	10	
- other	59	
b) additions (as a result of)	32	88
- financial statements audit	32	19
- transfer pricing		10
- other		59
c) consumption (as a result of)	88	15
- financial statements audit	19	15
- transfer pricing	10	
- other	59	
d) closing balance	32	88
- financial statements audit	32	19
- transfer pricing	0	10



- other	0	59
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## Note 12 a

LONG-TERM LIABILITIES	in PLN 000's	
	2018	2017
a) to other undertakings, including	12,355	47,319
cc) to other undertakings	12,355	47,319
- credits and loans	11,960	14,640
- debt securities issues		29,879
- other financial liabilities	365	
- other		2,800
Long-term liabilities, total	12,355	47,319

## Note 12 b

LONG-TERM LIABILITIES BY BALANCE SHEET ITEM MATURING	in PLN 000's	
	2018	2017
between 1 and 3 years	5,886	35,359
b) between 3 years and 5 years	6,469	5,760
c) in more than 5 years		6,200
Long-term liabilities, total	12,355	47,319

## Note 12 c

LONG-TERM LIABILITIES (BY CURRENCY)	unit	currency	in PLN 000's	
			2018	2017
a) In the Polish currency			12,355	47,319
Long-term liabilities, total			12,355	47,319

## LONG-TERM LIABILITIES FROM CREDITS AND LOANS

Name (firm) of the undertaking and its legal form	Credit / loan amount as per the agreement		Outstanding credit / loan amount		Interest conditions	Repayment deadline	Security	Other
	in PLN 000's	currency other than PLN	in PLN 000's	currency other than PLN				
ING Bank Śląski S.A. Katowice	21,640		11,960		floating Wfbor 1M +2.3 p.p.	20th Feb 2023	- endorsed bill of exchange issued by TAMEH - registered pledge on plant and machinery	

## Note 13 a

SHORT-TERM LIABILITIES	in PLN 000's	
	2018	2017
a) ) to affiliated undertakings, including:	5,801	4,296
aa) to subsidiaries	5,801	4,296
- other (by type)	5,801	4,296
b) to other undertakings	42,629	11,836
- credits and loans, including:	2,680	2,608
- debt securities issues	29,910	
- other financial liabilities, including:	94	
- trade payables, maturing in:	9	57
- less than 12 months	9	57
- on account of taxes, subsidies, customs duties, social security, health insurance and other public levies	92	125
- remuneration	15	17
- other (by purpose)	9,829	9,029
c) special funds (by purpose)	3	3
Short-term liabilities, total	48,433	16,135

Other liabilities are the payments to non-affiliated undertakings and a subsidiary on account of the acquisition of shares of Energetyczne Towarzystwo Finansowo-Energetyczne ENERGO-UTECH SA and they pertain to the deferred portion of payment for the plant and machinery leased with the right to collect fruits under a contract dated 1st October 2015.

The excess of short-term liabilities to non-affiliated undertakings over the value of unencumbered short-term assets of the Company is PLN 40.5 million as of 31st December 2018. On 13th February 2018 the Extraordinary Shareholders' Meeting of Elektrociepłownia BĘDZIN Sp. z o.o. (subsidiary) passed a resolution to pay out a dividend to the parent undertaking from the supplementary capital made from 2017 profit in the amount of PLN 15 million. The dividend was paid out on 10th April 2019. The dividend funds redeemed the bonds in the amount of PLN 13.3 million. Further, it was arranged that the maturity dates of certain short-term liabilities will be shifted to

31st December 2018. The repayment deadlines of short-term liabilities to non-affiliated undertakings in the amount of PLN 7,029.1k were extended respectively as follows: PLN 2,296.0k - by 28th Feb 2020 and PLN 4,733.1k - by 31st March 2020. On 10th April 2019 the conditions of issue of A series bonds amounting to PLN 16.2 million were changed so that the redemption date was extended to 10th April 2022. As a result of the above said events after the balance sheet date, the excess in question was reduced to PLN 2.3 million to be covered by the Undertaking with the Group's funds generated in 2019.

## Note 13 b

SHORT-TERM LIABILITIES (BY CURRENCY)	unit	currency	in PLN 000's	
			2018	2017
a) in the Polish currency			48,433	16,135
Short-term liabilities, total			48,433	16,135

## Note 13 c

## SHORT-TERM LIABILITIES FROM CREDITS AND LOANS

Name (firm) of the undertaking	Credit / loan amount as per the agreement		Outstanding credit / loan amount		Interest conditions	Repayment deadline	Security	Other
	in PLN 000's	currency other than PLN	in PLN 000's	currency other than PLN				
ING Bank Śląski Katowice	21,640	in PLN 000's	2,680	in PLN 000's	floating Wibor 1M +2.3 p.p.	20th Feb 2023	- endorsed bill of exchange issued by TAMEH registered pledge on plant and machinery	

## Note 13 d

## SHORT-TERM LIABILITIES FROM ISSUED DEBT FINANCIAL INSTRUMENTS

Debt financial instruments by type	in PLN 000's				Guarantees / security	Additional rights	Other
	Face value	Interest conditions	Redemption date	Redemption date			
bonds	29,500	W6M/+4.5pp	10th April 2019*	in PLN 000's	registered pledge on the shares of ETF-L ENERGO UTECH S.A.	unlisted	

\* as regards the redemption dates, certain material events took place after the balance sheet date (referred to in Note 13a). The balance value demonstrated in the balance sheet contains interest accrued as of balance sheet date in the amount of PLN 410k.

## Note 14 a

OTHER ACCRUALS AND DEFERRED INCOME	in PLN 000's	
	2018	2017
a) deferred income	14	14
- long-term (by source)	14	14
- appraisal of land held in perpetual usufruct	14	14
Other accruals and deferred income, total	14	14

## NOTES TO PROFIT AND LOSS ACCOUNT

## Note 15 a

NET PROCEEDS FROM SALES OF PRODUCTS (BY ITEM - BY OBJECT)	in PLN 000's	
	2018	2017
- from affiliated undertakings, including:	995	332
- from subsidiaries	995	322
- services	234	267
- other	761	65
- from other undertakings	2,008	2,112
- lease	1,981	2,112
- other	27	

## Note 15 b

NET PROCEEDS FROM SALES OF PRODUCTS (BY TERRITORY)	in PLN 000's	
	2018	2017
a) country	3,003	2,444
- from subsidiaries	995	332
- from other undertakings	2,008	2,112

## Note 16 a

OTHER OPERATING INCOME	in PLN 000's	
	2018	2017
a) provisions released (as a result of)	0	8
- employee benefits	0	8
b) remaining, including:	0	45
- refund of overpayments	0	45
Other operating income, total	0	53

## Note 17 a

OTHER OPERATING EXPENSES	in PLN 000's	
	2018	2017
a) provisions created (as a result of)	25	
- provisions for retirement severance pay	25	
b) remaining, including:	8	36
- donations	7	9
- other	1	27
Other operating expenses, total	33	36

## Note 18 a

FINANCIAL INCOME FROM DIVIDENDS AND SHARE IN PROFITS	in PLN 000's	
	2018	2017
a) from affiliated undertakings, including:	2,679	2,614
- from subsidiaries	2,679	2,614
Financial income from dividends and share in profits, total	2,679	2,614

## Note 18 b

FINANCIAL INCOME FROM INTEREST	in PLN 000's	
	2018	2017
- bank - deposits	1	2
- interest on receivables		7
Financial income from interest, total	1	9

## Note 18 c

OTHER FINANCIAL INCOME	in PLN 000's	
	2018	2017
- profit from disposal of financial assets		213
- other		199
Other financial income, total		412

## Note 19 a

FINANCIAL EXPENSES (INTEREST)	in PLN 000's	
	2018	2017
a) interest on credits and loans	860	859
- to affiliated undertakings, including:	231	128
- to subsidiaries	231	128
- to other undertakings, including:	629	731
b) other interest	2,296	2,184
- to other undertakings, including:	2,296	2,184
Financial expenses (interest), total	3,156	3,043

## Note 20 a

DEFERRED INCOME TAX RECOGNISED IN THE PROFIT AND LOSS ACCOUNT	in PLN 000's	
	2018	2017
- other components of deferred tax (by categories)	736	137
- provision for financial statements audit	-2	-1
- provision for transfer pricing documentation	2	-2
- interest accrued on credit	11	-11
- interest accrued on debt assumption agreement	-11	-2
- provision for advisory services	11	-11
- provision for retirement severance pay(st/lt)	-5	2
- provision for a liability from interests on bonds	-5	-22
- tax loss	579	
- difference between the carrying value and the tax value of property, plant and equipment under a contract of lease with the right to collect fruits	156	184
Deferred income tax, total	736	137

## SIGN-OFF

SIGNATURES OF ALL THE MANAGEMENT BOARD MEMBERS			
Date	Name and surname	Position/Function	Sign-off
25th April 2019	Krzysztof Kwiatkowski	President of the Management Board	

SIGNATURE OF THE PERSON IN CHARGE OF THE UNDERTAKING'S BOOKS OF ACCOUNT			
Date	Name and surname	Position/Function	Sign-off
25th April 2019	Bożena Poznańska		

Polish Financial Supervision  
Authority

The following notes were not completed In this report:

Property, plant and equipment recognised as off balance sheet items

Change in impairment provisions on long-term receivables

Change in real property (by respective groups), Change in intangible assets (by respective groups), Shares in subordinated undertakings measured on the basis of equity method, including: Change in goodwill - subsidiaries, Change in goodwill - jointly controlled undertakings, Change in goodwill - associated undertakings, Change in negative goodwill - subsidiaries, Change in negative goodwill - jointly controlled undertakings, Change in negative goodwill - associated undertakings, Shares in other undertakings, Securities, shares and other long-term financial assets (as per degree of transferability), Long-term loans originated (by currency), Other long-term investments (by type), Change in long-term investments (by respective groups), Other long-term investments (by currency)

Other long-term prepayments and accrued income

Inventories

Short-term receivables from affiliated undertakings, Short-term receivables from other undertakings in which the issuer holds an equity interest, (Gross) trade receivables by balance sheet item maturing in:, (Gross) trade receivables that have been overdue for:

Securities, shares and other short-term financial assets (by currency), Securities, shares and other short-term financial assets (by degree of transferability), Short-term loans originated (by currency), Other short-term investments (by type), Other short-term investments (by currency), Treasury shares, Issuer's treasury shares owned by subordinated undertakings

Impairment provisions

Supplementary capital

Revaluation reserve

Other reserves (by purpose)

Deductions from net profit (on account of)

Change in other long-term provisions (by purpose)

Long-term liabilities from debt financial instruments issued Change in negative goodwill

Carrying value per one share

Contingent receivables (by source), Contingent liabilities (by source)

Net proceeds from sales of goods and materials (by item - by object), Net proceeds from sales of goods and materials (by territory)

Expenses by type

Other financial expenses

Share in net profit (loss) of subordinated undertakings measured on the basis of equity method

Profit (loss) on the sale of all or a portion of shares in subordinated undertakings

Current income tax, Total amount of deferred tax, Income tax recognised in the profit and loss account relating to

Other compulsory charges decreasing the profit (increasing the loss) as a result of:

Profit distribution

Profit per one share

Elektrociepłownia „Będzin” S.A.

### 3. INTRODUCTION TO FINANCIAL STATEMENTS OF ELEKTROCIEPŁOWNI 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 19.99% 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.

During the financial year and until the date of preparing the financial statements, there were no changes in the composition of the Management Board.

Management Board as at 31 December 2018:

Krzysztof Kwiatkowski - President of the Management Board

From 1 January 2018 to 30 June 2018, the Supervisory Board of the ninth term of office was operating in the following composition:

- |                         |  |
|-------------------------|--|
| 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          |

Audit Committee operating within the Supervisory Board as at 31 December 2018:

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

On 29 June 2018, Mr. Grzegorz Kwiatkowski submitted his resignation from his position in the Supervisory Board.

On 25 May 2018, in connection with the resignation of Mr. Grzegorz Kwiatkowski from the position of a member of the Audit Committee, Wojciech Sobczak was appointed in his place.

During the financial year and until the date of preparation of the financial statements, there were no changes other than those mentioned above.

#### 2. Presentation of financial statements

The company presents financial statements for the period commencing on 1 January 2018 and ending on 31 December 2018, as well as, comparable financial data for the period from 1 January 2017 to 31 December 2017.

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.

On 10 April 2019, the Dominant Company received PLN 14.0 m of funds from the dividend from the Elektrociepłownia BĘDZIN Sp. z o. o. subsidiary and these funds were allocated for the purchase of bonds in the amount of PLN 13.3 m. The conditions and terms for the issue of "A" series bonds with the value of PLN 16.2 m have been changed in such a way that the period of issue was extended to 10 April 2022.

The repayment period of short-term liabilities to unrelated entities in the amount of PLN 7.0 m has been extended to respectively: PLN 2.3 m - 28 February 2020 and PLN 4.7 m - until 31 March 2020.

The financial statements have been prepared in PLN, unless otherwise indicated in a specific fragment.



Elektrociepłownia „Będzin” S.A.

### 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 29 March 2018 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 2018.757),

#### 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:

<i>Fixed assets</i>	<i>Fixed Assets Classification number</i>	<i>Annual depreciation rates in%</i>
- 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. The amount of deferred income tax assets is determined taking into account income tax rates in force in the year when the tax obligation arises.

##### 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.

Elektrociepłownia „Będzin” S.A.

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.

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.

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

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. Liabilities are valued at least as at the balance sheet date at the due amount.

### 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.

## 3.2 Financial result

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.

## 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.

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.

Elektrociepłownia „Będzin” S.A.

### **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 4.3000 applicable as at 31 December 2018.

Balance sheet data in EUR were converted at the blended NBP rate of PLN 4,1709 applicable as at 31 December 2017.

*b) information about dividend*

Elektrociepłownia "Będzin" S.A. did not pay out dividend in 2018.

*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.

Elektrociepłownia „Będzin” S.A.

	31 December 2017			31 December 2018		
	Accounting principles as per Accounting Act	Implications of accounting principles changed to EU IFRS	EU IFRS	Accounting principles as per Accounting Act	Implications of accounting principles changed to EU IFRS	EU IFRS
<b>ASSETS</b>	<b>156 355</b>	<b>17 409</b>	<b>173 764</b>	<b>153 932</b>	<b>17 253</b>	<b>171 185</b>
<b>Fixed assets</b>	<b>152 991</b>	<b>17 409</b>	<b>170 400</b>	<b>150 856</b>	<b>17 253</b>	<b>168 109</b>
Intangible assets	25	-	25	5	-	5
Tangible fixed assets	556	299	855	554	299	853
Long-term receivables	20 605	-	20 605	19 072	-	19 072
Long-term investments	130 588	17 356	147 944	130 588	17 356	147 944
Long-term prepayments	1 217	246	971	637	402	235
<b>Current assets</b>	<b>3 364</b>	<b>-</b>	<b>3 364</b>	<b>3 076</b>	<b>-</b>	<b>3 076</b>
Inventory	-	-	-	-	-	-
Short-term receivables	1 776	-	1 776	2 022	-	2 022
- from related parties	-	-	-	-	-	-
- from other entities	1 776	-	1 776	2 022	-	2 022
Receivables from income tax	-	-	-	-	-	-
Short-term investments	1 580	-	1 580	1 043	-	1 043
Short-term prepayments	8	-	8	11	-	11
<b>LIABILITIES</b>	<b>156 355</b>	<b>17 409</b>	<b>173 764</b>	<b>153 932</b>	<b>17 253</b>	<b>171 185</b>
<b>Equity</b>	<b>92 552</b>	<b>17 655</b>	<b>110 207</b>	<b>92 670</b>	<b>17 655</b>	<b>110 325</b>
Share capital	15 746	21 982	37 728	15 746	21 982	37 728
Supplementary capital	60 815	28 762	32 053	61 545	28 762	32 783
Revaluation reserve	-	-	-	-	-	-
Other reserve capital	15 261	-	15 261	15 261	-	15 261
Profit (loss) from previous years	-	24 435	25 165	-	24 435	24 553
Net profit (loss)	730	-	-	118	-	-
<b>Liabilities and provisions for liabilities</b>	<b>63 803</b>	<b>246</b>	<b>63 557</b>	<b>61 262</b>	<b>402</b>	<b>60 860</b>
<b>Provisions for liabilities</b>	<b>335</b>	<b>246</b>	<b>89</b>	<b>460</b>	<b>402</b>	<b>58</b>
Provision for deferred income tax	246	246	-	402	402	-
Provision for retirement and similar benefits	1	-	1	26	-	26
- long-term	1	-	1	1	-	1
- short-term	-	-	-	25	-	25
Other provisions	88	-	88	32	-	32
- long-term	-	-	-	-	-	-
- short-term	88	-	88	32	-	32
<b>Long-term liabilities</b>	<b>47 319</b>	<b>-</b>	<b>47 319</b>	<b>12 355</b>	<b>-</b>	<b>12 355</b>
To related parties	-	-	-	-	-	-
To other entities	47 319	-	47 319	12 355	-	12 355
<b>Short-term liabilities</b>	<b>16 135</b>	<b>-</b>	<b>16 135</b>	<b>48 433</b>	<b>-</b>	<b>48 433</b>
To related parties	4 296	-	4 296	5 801	-	5 801
To other entities	11 836	-	11 836	42 629	-	42 629
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	-	-	-	-	-	-

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

### 1. Value of land in perpetual usufruct

Specification	Closing balance 31.12.2017					Closing balance 31.12.2018				
	Area (m2)	Administrative value	Gross value	Impairment	Net value	Area (m2)	Administrative value	Gross value	Impairment	Net value
plot no. 693 in Sosnowiec	2 520	58	14	14	0	2 520	58	14	14	0
plot no. 293/5 in Wojkowice	6 376	140	103	0	103	6 376	140	103	0	103
<b>Total</b>	<b>8 896</b>	<b>198</b>	<b>117</b>	<b>14</b>	<b>103</b>	<b>8 896</b>	<b>198</b>	<b>117</b>	<b>14</b>	<b>103</b>

### 2. Capital expenditures incurred and planned within the next 12 months from the balance sheet date

The Company did not incur any capital expenditures from 1 January 2018 to 31 December 2018 and does not plan capital expenditures in the next 12 months from the balance sheet date.

### 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.

### 4. Tangible fixed assets under construction

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

### 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.

Specification	Balance as at 31.12.2017			Balance as at 31.12.2018		
	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	ENUT shares	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>

### 6. Long-term investments

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 2018: 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 2019-2024. 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 10.72%. The value in use as at the test date, i.e. 31 December 2018 is PLN 52 560k. The estimated value in use of net assets is based to a large extent on the assumption regarding the level of sales of financial leasing services at the level of PLN 170 million per year. If the value of this parameter changes by 1%, the estimated value in use changes by 3.8%.

Projected cash flows in Elektrociepłownia Będzin Sp. z o.o. were estimated taking into account detailed financial projections for 2019-2029. 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 2018 was PLN 314 203k. The estimated value in use of the segment's operating assets is based to a large extent on the assumptions regarding the growth of wholesale electric energy prices by 31% compared to prices realized in 2018, as well as the unit price of CO2 emissions at EUR 23 / Mg at the exchange rate 4 PLN / EUR and a further increase in the forecast period by 2.5% each year. The change of the above parameters by 1% has the following effect on the estimated value in use:  
- electricity price in 2019 - 6.7%,  
- price of CO2 emission rights - 3.4%.

The estimated value in use of the segment's operating assets is based to a large extent on the assumptions regarding the growth of wholesale electric energy prices by 31% compared to prices realized in 2018, as well as the unit price of CO2 emissions at EUR 23 / Mg at the exchange rate 4 , PLN 35 / EUR and a further increase in the forecast period by 2.5% each year. The change of the above parameters by 1% has the following effect on the estimated value in use:

- electricity price in 2019 - 6.7%,
- price of CO2 emission rights - 3.4%.

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

The only long-term financial assets are shares and stocks in subsidiaries.

#### 7. 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:						
<b>Other (net), including:</b>	<b>2 022</b>	-	-	-	-	<b>2 022</b>
Due to the lease contract	1 927					1 927
Due to the use for consideration agreement	94					94
other	1					1

#### 8. Ownership of equity capital as at 31 December 2018

Shareholder	Number of shares	Nominal value of shares	Share-holding %
Krzysztof Kwiatkowski	1 033 499	5 167	32.81%
Value FIZ	334 747	1 674	10.63%
Bank Przedsiębiorstwa Krajowego	311 355	1 557	9.89%
Waldemar Organista	173 146	866	5.50%
Familiar SA, SICAV-SIR	271 526	1 358	8.62%
Zolkiewicz&Partners Inwestycji	157 740	789	5.01%
State Treasury	157 466	787	5.00%
Other	709 721	3 548	22.54%
<b>Total</b>	<b>3 149 200</b>	<b>15 746</b>	<b>100.00%</b>

From the balance sheet date to the date of preparation of the financial statements, there were no significant changes in the shareholding structure of the Company.

The Management Board of the Company will propose to allocate a net profit of PLN 118 k to supplementary capital.

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

In 2018 not recorded. In 2017, not recorded, either.

#### 10. Conditional liabilities

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 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.

### 11. Financial expenses

Specification		01.01.2017 . - 31.12.2017.	01.01.2018 . - 31.12.2018 .
<b>I.</b>	<b>Interest</b>	<b>3 043</b>	<b>3 156</b>
	a) interest on bonds	1 969	1 888
	- accrued and paid	1 858	1 857
	- accrued not paid	111	31
	b) interest on bank loans	731	629
	- accrued and paid	673	629
	- accrued not paid	58	-
	c) on loan /debt acquisition	128	231
	- accrued and paid	115	162
	- accrued not paid	13	69
	d) on leasing	-	16
	- accrued and paid	-	16
	e) other	215	392
	<b>TOTAL</b>	<b>3 043</b>	<b>3 156</b>

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

In 2018 (and also in 2017), there was no discontinued activity. The Company does not plan to discontinue any activity in the next year.

### 13. Corporate income tax

		01.01.2017 - 31.12.2017	01.01.2018 - 31.12.2018	
Balance sheet proceeds/income			Core operations	Capital operations
1.	Sales of products and services	2 444	2 769	234
2.	Other operating income	53	-	-
3.	Other financial income	2 823	1	2 679
4.	Sale of non-financial fixed assets	213	-	-
	<b>Total</b>	<b>5 533</b>	<b>2 770</b>	<b>2 913</b>
Proceeds/income which increase(s) the taxable base				
1.	installments of lease with the right to collect fruits	1 608	-	-
2.	price of company acquisition	659	-	-
3.	sale of services- taxable income	-	3 919	-
	<b>Total</b>	<b>2 267</b>	<b>3 919</b>	-
Proceeds/Income excluded from the taxable base				
1.	dividends	2 614	-	2 679
2.	capital operations	-	-	-
3.	core operations	-	-	-
4.	release of employee benefits provision	9	-	-
5.	sale of services - balance sheet income	-	1 981	-
	<b>Razem</b>	<b>2 623</b>	<b>1 981</b>	<b>2 679</b>
<b>TAXABLE PROCEEDS/INCOME</b>		<b>5 177</b>	<b>4 708</b>	<b>234</b>

The reporting period: 01.01.2018 – 31.12.2018  
Round-ups: all amounts expressed in PLN k



<b>Balance sheet costs</b>				
1	Costs of core operations	1 586	1 394	246
2	Costs of other operations	36	31	2
3	Costs of financial operations	3 043	667	2 489
<b>Total</b>		<b>4 665</b>	<b>2 092</b>	<b>2 737</b>
<b>Costs which do not constitute tax deductible expenses</b>				
8	Non-deductible expenses of other operations	-	124	-
9	Non-deductible expenses of financial operations	-	-	100
10	representation	15	-	-
11	business trips	1	-	-
12	voluntary membership fee	5	-	-
13	accrued and not yet paid interest on bonds	111	-	-
14	creation of provisions	101	-	-
15	donations	9	-	-
16	accrued and not yet paid interest on debt assumption	13	-	-
17	employee benefits	4	-	-
18	advertising	1	-	-
19	interest accrued on credits	58	-	-
20	VAT structure adjustment	2	-	-
<b>Total</b>		<b>320</b>	<b>124</b>	<b>100</b>
<b>Other adjustments of tax costs</b>				
1	fixed asset tax depreciation	2 580	2 580	-
2	tax costs not recorded in the books	41	252	72
	share of general tax costs not recorded in the books, attributable to core operations	-	28	2
4	sale of a company	659	-	-
<b>Total</b>		<b>3 280</b>	<b>2 860</b>	<b>74</b>
<b>TAX COSTS TOTAL</b>		<b>7 625</b>	<b>4 828</b>	<b>2 711</b>
<b>Corporate income tax base</b>		<b>- 2 448</b>	<b>- 120</b>	<b>- 2 477</b>

#### 14. Deferred income tax

		01.01.2017 - 31.12.2017	01.01.2018 - 31.12.2018
<b>Deferred tax and other, including:</b>		<b>(-137)</b>	<b>(-736)</b>
1.	Deferred tax assets	47	-580
2.	Provisions for deferred tax assets	(-184)	(-156)
<b>TOTAL INCOME TAX</b>		<b>137</b>	<b>736</b>

#### 15. Tax losses brought forward to next years

Year	Tax loss amount	Settled		Outstanding settlement	Last year to settle tax loss
		In year	amount		
2015	2 814			2 814	2020
2016	1 252			1 252	2021
2017	2 448			2 448	2022
2018	2 597			2 597	2023
<b>Total</b>	<b>9 111</b>	<b>x</b>		<b>9 111</b>	<b>x</b>

#### 16. Explanations to cash flows statement

Specification		01.01.2017 - 31.12.2017	01.01.2018 - 31.12.2018
<b>1.</b>	<b>Amortisation/depreciation</b>	<b>22</b>	<b>22</b>
	amortisation of intangible assets	- 20	20
	depreciation of fixed assets	2	2
	purchase of software	40	-
<b>2.</b>	<b>Interest and share in profits (dividends) comprise:</b>	<b>416</b>	<b>477</b>
	interest paid on loans	114	162
	interest paid on credits and lease	673	645
	budget interest	-	1
	interest on debt securities	1 969	1 888
	dividends received	- 2 614	- 2 679
	interest on receivables	204	385
	interest accrued on credits and loans	72	-
	interest accrued on loans	- 13	69
	Bank Guarantee Fund	11	6
<b>3.</b>	<b>Change in receivables is attributable to:</b>	<b>1 598</b>	<b>1 953</b>
	change in short-term receivables as per the balance sheet	- 162	- 246
	change in long-term receivables as per the balance sheet	1 760	1 532
	exclusion of lease	-	667
<b>4.</b>	<b>Change in short-term liabilities, excluding loans and credits, is attributable to:</b>	<b>844</b>	<b>- 82</b>
	change in short-term liabilities as per the balance sheet	38	- 381
	adjusted for the credit repaid	-	- 71
	debt assumption	928	495
	interest accrued	13	-
	discount	- 135	-
	exclusion of lease	-	94
	adjusted for accrued interest on bonds	-	31

#### 17. Transactions with related parties

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

Transactions with related parties

Company name	Receivables	Liabilities	Revenues	Expenses
	Balance as at 31.12.2018		From 01.01.2018 to 31.12.2018	
ETF-L ENERGU-UTECH SA	-	5 801	171	361
Elektrociepłownia Będzin sp. z o. o.	-	-	824	41

#### 18. Manpower

Employee groups		01.01.2017 - 31.12.2017	01.01.2018 - 31.12.2018
1	Production employees	0	0
2	Non-production employees	4	4
<b>Total</b>		<b>4</b>	<b>4</b>

The reporting period: 01.01.2018 – 31.12.2018  
Round-ups: all amounts expressed in PLN k

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

	Specification	01.01.2017 - 31.12.2017	01.01.2018 - 31.12.2018
1	Management units - remuneration	312	380
2	Supervisory units - remuneration	280	257
	<b>Total</b>	<b>592</b>	<b>637</b>

As at 31 December 2018, there were no loans and similar benefits for executives holding positions in management, supervisory or administrative boards and units.

**20. Remuneration of chartered auditor (entity authorised to examine financial statements) paid or due**

In 2018, pursuant to agreements of 17 July 2018 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 2017, pursuant to agreements of 19 June 2017 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 32k plus VAT.

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

No significant events referring to previous years occurred.

**22. Events occurring after the balance sheet date, not presented in the financial statements**

On 13 February 2018, the Extraordinary General Meeting of Shareholders of Elektrociepłownia BĘDZIN Sp. z o. o. (a subsidiary) adopted a resolution to pay dividends to the Dominant Company from supplementary capital created from 2017 profit in the amount of PLN 15m. The dividend in the amount of PLN 14.0 m was paid on 10 April 2019 and was allocated for redemption of bonds in the amount of PLN 13.3 m. On 10 April 2019, the issue terms of "A" bonds series with the value of PLN 16.2 m were changed in such a way that the period of issue was extended to 10 April 2022.

In addition, changes in the maturity of a portion of short-term liabilities were agreed as at 31 December 2018. The repayment period of short-term liabilities to unrelated entities in the amount of PLN 7.0 m was extended to PLN 2.3 m, respectively, until 28 February 2020 and PLN 4.7 m - until 31 March 2020.

**23. Amendments to accounting principles/ error adjustment**

There were no amendments to accounting principles.

**24. Information about non-consolidated joint enterprises**

There were no events of this nature.

**25. 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. No units preparing consolidated financial statements at lower levels of consolidation.

**26. Merger of companies**

No mergers occurred in the accounting year.

**27. 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.

**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:

- 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.

**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 reevaluates 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).

**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.

**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.

**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.

**28. Other relevant information facilitating the assessment of the Company**

**Information on the interest rate risk**

**Characteristics of financial instruments**

CLASSIFICATION OF FINANCIAL INSTRUMENTS	BALANCE SHEET VALUE	TERMS AND CONDITIONS DETERMINING THE FUTURE CASH FLOWS
Financial assets	1 043	
Cash	1 043	
Issue of debt securities	-29 910	Interest rate at 6M WIBOR 6M plus margin of 4.5 p.p. Maturity date scheduled for 10 April 2019 *
Investment loan	-14 640	Interest rate at 1M WIBOR plus margin of 2.3p.p. Maturity date scheduled for 20 February 2023
Purchase of shares of a subsidiary	-2 790	Interest rate at 5.5% per annum Maturity date Schedule for 30 June 2019
Purchase of shares of a subsidiary	-2 000	Interest rate at WIBOR 1M plus margin 4.00 p. p. per annum Maturity date scheduled for 30 June 2019
Leasing liabilities	-489	Interest rate at 1.5169% per annum Maturity date Schedule for 25 July 2022

Debt acquisition	-943	Interest rate at WIBOR 1M + 6.00 p. p. per annum Maturity date scheduled at April 30 2019
Leasing receivables	20 604	Interest rate at IRR 0.7570% Maturity date scheduled at 20 October 2025
Receivables due to use for consideration	489	Interest rate 1.65% per annum Maturity date scheduled at 25 July 2022
Purchase of shares of a subsidiary	-7 029	Interest rate at 5.5% per annum Maturity date scheduled by 30 June 2019 *

\* in terms of maturity of balances, significant events occurred after the balance sheet date as described in note 22

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 2018
Financial assets	1 580	1 043
Liabilities due to the purchase of shares	11 819	4 790
Liabilities due to debt acquisition	1 493	-
Leasing liabilities	-	489
Receivables due to paid use	-	489

FLOATING INTEREST RATE FINANCIAL INSTRUMENTS	BALANCE SHEET VALUE AS AT 31 DECEMBER 2017	BALANCE SHEET VALUE AS AT 31 DECEMBER 2018
Leasing receivables	22 365	20 604
Financial liabilities arising from issue of debt securities	29 879	29 910
Credit liabilities	17 190	14 640
Liabilities due to debt assumption	-	943
Liabilities due to the purchase of shares	-	7 029

#### 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 2018
Leasing receivables	22 365	20 604
Receivables due to use for consideration	-	489
Cash	1 580	1 043
<b>Total</b>	<b>23 945</b>	<b>22 136</b>

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

Annual non-consolidated financial statements  
 Elektrociepłownia „Będzin” S.A.

FINANCIAL LIABILITIES	BALANCE SHEET VALUE AS AT 31 DECEMBER 2017	BALANCE SHEET VALUE AS AT 31 DECEMBER 2018
Financial liabilities arising from issue of debt securities	29 879	29 910
Credit liabilities	17 190	14 640
Debt acquisition liabilities	1 493	943
Liabilities due to the purchase of shares	11 819	11 819
Leasing liabilities	-	489
<b>Total</b>	<b>60 381</b>	<b>57 801</b>

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

Bożena Poznańska - Person responsible for drafting the financial statements .....

Poznań, 25 April 2019

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**Management Board Report of  
Elektrociepłownia Będzin S.A.  
on the Company's Activity in 2018.**

**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 2018 prepared on the basis of the Accounting Law (Journal of Laws of 2018, item 395, as amended on 29 September 1994) and 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, consolidated version).

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 shares 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 31 March 2020. 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 2018, ETF-L Energo-Utech S.A. held 19.99% 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 2018 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 Companies and Partnerships 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

From 1 January 2018 to 30 June 2018 the Supervisory Board comprised 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

On 29 June 2018 Mr Grzegorz Kwiatkowski resigned from his position as a Member of the Supervisory Board.

As at 31 December 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 Glanowski - Member of the Supervisory Board
4. Mirosław Leń - Member of the Supervisory Board
5. Wojciech Sobczak - Member of the Supervisory Board

### 2.3 Audit Committee

From 1 January 2018 to 25 May 2018 the Audit Committee comprised the following individuals:

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

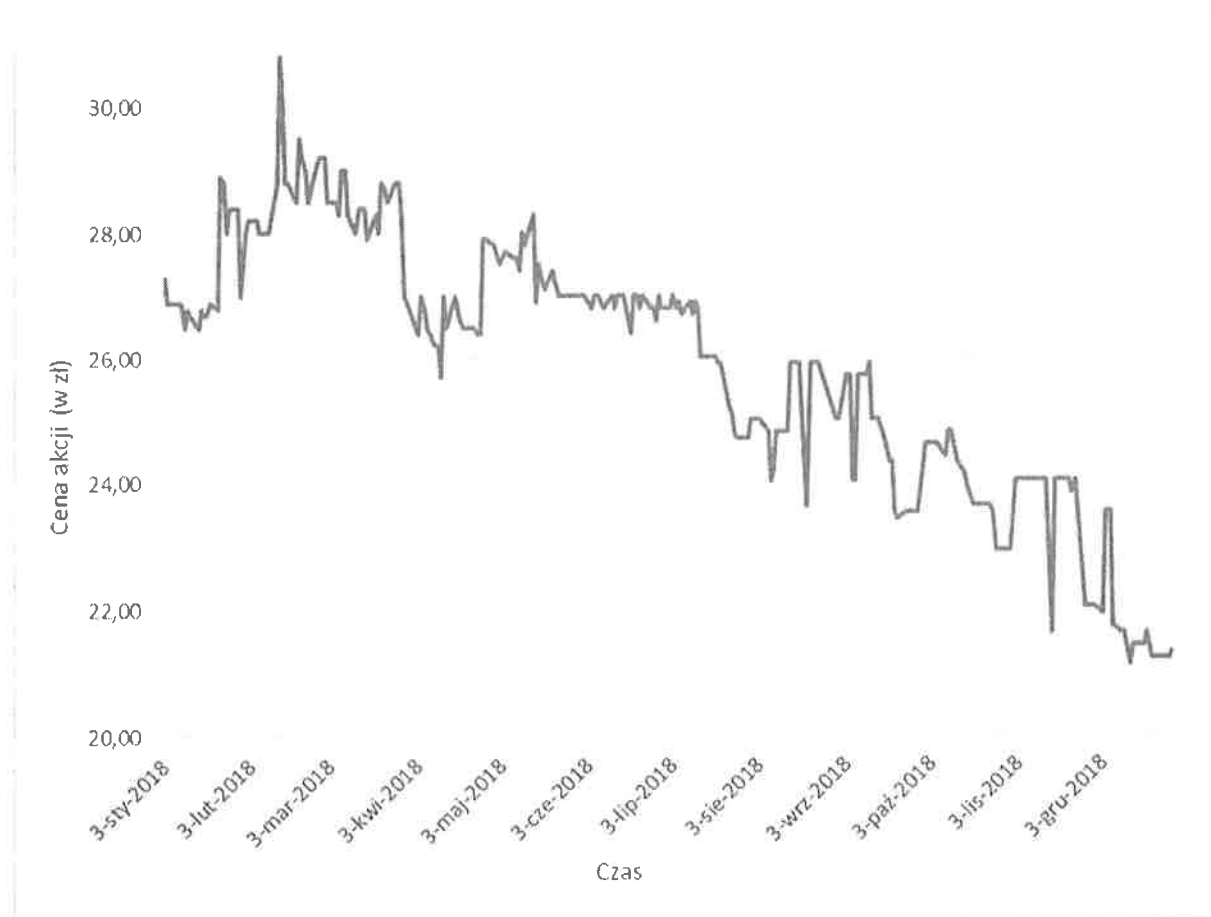
With respect to Mr Grzegorz Kwiatkowski's resignation from a position at the company's Audit Committee turned in on 25 May 2018, Mr Wojciech Sobczak was appointed to the Audit Committee. From 25 May 2018 to 31 December 2018 the Audit Committee comprised the following individuals:

1. Janusz Niedźwiecki - Chairman of the Audit Committee,
2. Waldemar Organista - Member of the Audit Committee,
3. Wojciech Sobczak - 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 audit the financial statements of the Company and of the Group of Elektrociepłownia "Będzin" SA.

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

The price of Elektrociepłownia "Będzin" S.A. shares recorded at Warsaw Stock Exchange in 2018 is presented in the chart below.



#### 4. Intangible assets

##### 4.1 Manpower

Item	As at 31.12.2018 in FTEs	As at 31.12.2017 in FTEs
Total manpower	4	3
including:		
Management Board	1	1
Administration	2	2

##### 4.2 Personnel changes in 2018

In 2018 the following personnel changes were noted:

- employment of 1 person on the basis of a contract of employment.

##### 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 2017-2018

Payroll fund	Average monthly remuneration, excluding remuneration of the Company's Management Board in PLN/ month	
	2018	2017
Total remuneration	8.289,19	2.967,74
Remuneration without severance payment	8.289,19	2.967,74
Remuneration without interim payments *	8.289,19	2.967,74

\* 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)	
	2018	2017
Total assets	153 932	156 355
Current assets	3 076	3 364
Inventory	0	0
Short-term receivables	2 022	1 776
Funds	1 043	1 580
Short-term accrued expenses	11	8
Equity capital	92 670	92 552
Provisions for liabilities	460	335
Long-term liabilities	12 355	47 319
Short-term liabilities	48 433	16 135
Accruals and deferred income	14	14

Ratios	2018	2017
Total debt ratio <sup>1</sup>	0,39	0,41
HCR Liquidity ratio - quick <sup>2</sup>	0,06	0,21
CR Liquidity ratio- current <sup>3</sup>	0,06	0,21

<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.

(in PLNk)

Specification	Performance I-XII 2018	Cost structure in% I-XII 2018	Performance I-XII 2017	Cost structure in % I-XII 2017
Amortization and depreciation	22	1,3	22	1,4
Consumption of materials and energy	3	0,2	1	0,1
External services	644	39,3	707	44,5
Taxes and charges	39	2,4	40	2,5
Payroll	753	45,9	721	45,5
Social security and other benefits	57	3,5	58	3,7
Other costs by type	122	7,4	37	2,3
Value of goods and materials sold	0	0,0	0	0,0
<b>TOTAL COSTS</b>	<b>1 640</b>	<b>100,0</b>	<b>1 586</b>	<b>100,0</b>

### Financial result

Elektrociepłownia "Będzin" S.A. closed the year 2018  
with net profit of PLN 118k

Financial result	years	
	2018 PLNk	2017 PLNk
EBITDA*	1 352	897
Business performance	1 363	858
Profit (loss) on operating activity	1 330	875
Profit (loss) on financial activity	-476	-8
Gross profit (loss)	854	867
Income tax	736	137
Net profit (loss)	118	730

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

The above financial data of the year 2018 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.

### **Financial instruments**

Risk management covers the processes of risk identification and measurement and the ways to deal with the risk. The Company's Management Board determines the general risk management principles and the policy for specific risk areas.

#### ***FX risk***

The Company is not exposed to FX risk from buy and sell transactions in various currencies as it performs its business transactions on the domestic market. The Company has not used FX hedging instruments.

#### ***Interest rate risk***

The Company is exposed to the volatility risk of cash flow caused by interest rates, the risk inherent in assets and liabilities based on floating interest rates, and to the risk of fair value volatility arising from assets and liabilities based on fixed interest rates. The Company minimizes the interest rate risk by:

- proper structuring of assets and liabilities based on floating and risk interest rate,
- concluding transactions with financial institutions having a high credit rating.

The Company has not used interest rate hedging instruments. In case of changing interest rates in subsequent reporting periods the Company may be exposed to interest rate risk pertaining to liabilities from securities issue (the Company issued a total of PLN 30 million worth of bonds based on floating interest rate).

#### ***Credit risk***

The Company is not exposed to credit risk from financial transactions as it cooperates with highly credible financial institutions.

What the Company considers to be at a negligible credit risk (merchant loan), is the trade receivables. A respective policy of ongoing monitoring of clients whether they can meet their financial obligations allows verifying the inherent credit risk, both at the offer, as well as the implementation stage of executing contracts. The Company adjusts the value of its receivables with impairment provisions for amounts due from debtors in liquidation, bankruptcy, disputing the claims and having overdue payables as at the balance sheet date if the assessment of the debtors' economic and financial standing shows it is not likely the debts will be repaid in the foreseeable future (for more please confront the note "short-term liabilities and change



in the balance of impairment provisions for short-term receivables”). The aggregate value of impairment provisions for short-term receivables as of 31 December 2018 is PLN 8k.

#### ***Financial liquidity risk***

Liquidity risk is a risk of obstacles the Company may face while meeting its obligations arising from financial liabilities which are settled by payment with cash or other financial assets. The Company's liquidity management consists in providing for the possibly highest degree of certainty that the Company's liquidity will suffice to pay the due and payable liabilities, both under normal and austere circumstances, without exposing the Company to inadmissible losses nor undermining its reputation. To this aim, the Company monitors its cash flows, maintains credit lines and provides for cash sufficient to cover the expected operating and investment expenditure, as well as current financial liabilities, and it maintains the pre-determined liquidity ratios.

#### ***Price risk***

Appropriate policy, organisational structure, procedures and actions pertaining to risk management support the process of negotiating and fixing the Company's prices at optimum levels.

#### ***Risk of fair value volatility***

The Company is not significantly exposed to the risk of fair value volatility as regards the financial assets for sale. The Company does not hold any assets for sale.

#### ***Capital risk management***

The aim of the Company's capital risk management is to be able to continue its operations for the benefit of its shareholders and other stakeholders, as well as to maintain an optimum capital structure.

The Company does not use hedge accounting.

## **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.

The subsidiary of Elektrociepłownia "Będzin" S.A., Elektrociepłownia BĘDZIN Sp. z o.o., is the main source of heat as regards heat generation, hot utility water and technological heat in the area of Silesian Province, for Sosnowiec and partly for Będzin and Czeladź. The electric power generated is transmitted to the national power system.

The subsidiary Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. provides financial services mainly to power industry, railway and road transportation on the domestic market.

Major offtakers:

### Electricity offtakers

TAURON Polska Energia S.A.	268 940 MWh	64.70 %
Towarowa Giełda Energia S.A.	146 465 MWh	35.30 %

### Heat offtakers

TAURON Ciepło Sp. z o.o.	2 085 424 GJ	97.60 %
Wojewódzki Szpital Specjalistyczny nr 5 im. Św. Barbary	39 613 GJ	1.90 %
C.E.W.S. Media Sp. z o.o.	11 319 GJ	0.50 %

### Financial services offtakers

„WARBUS” Sp. z o.o.	7 agreements totalling PLN	24.43m
PUK Kolprem Sp. z o.o.	13 agreements totalling PLN	23.86m
Rail Polska Sp. z o.o.	11 agreements totalling PLN	21.08m

## VIII INFORMATION ABOUT VALID CONTRACTS SIGNIFICANT TO THE ACTIVITY OF ELEKTROCIEPŁOWNIA "BĘDZIN" S.A. IN 2018

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 10 April 2019.

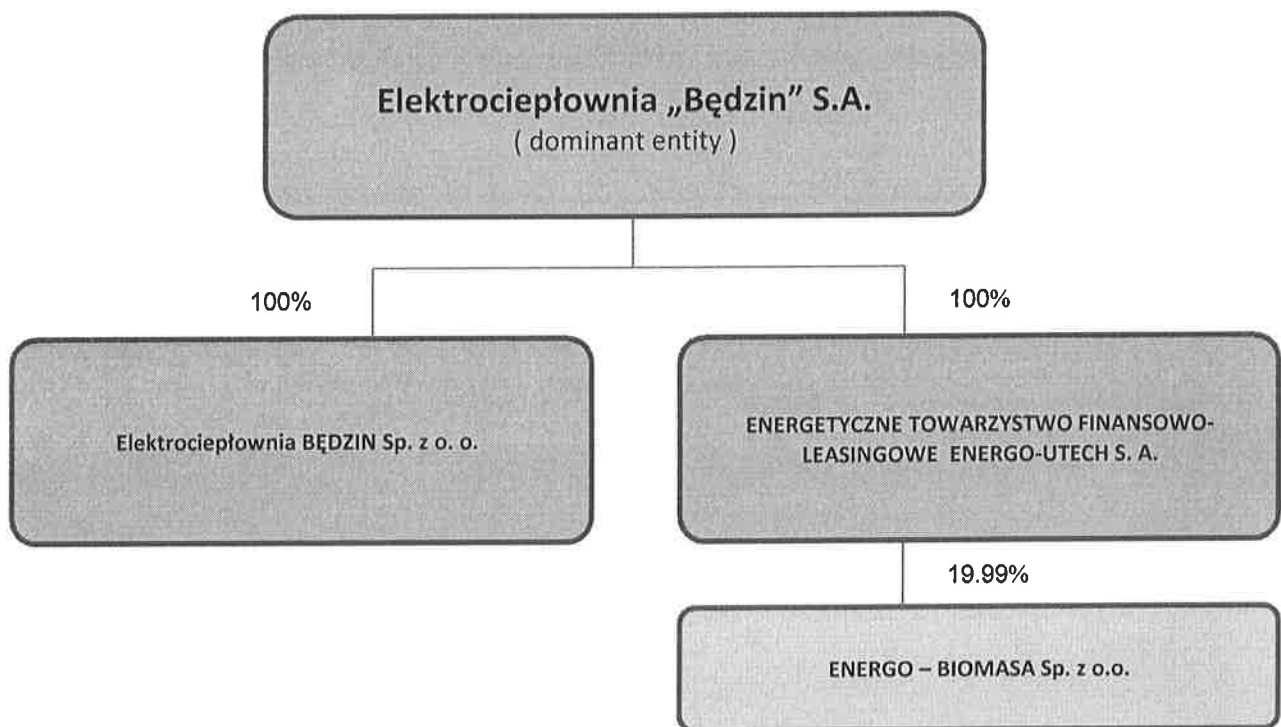
On 2 April 2015, Elektrociepłownia "Będzin" S.A. and Przedsiębiorstwem Usługowym UTECH Sp. z o.o. entered into agreement on the purchase of the block of 1,118 shares and agreement on conditional purchase of the block of 224 shares of items of shares of

Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. According to agreements, the final tranche of payment for the shares of PLN11,819.00k matures on 31 March 2020. 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.

## 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% stock of shares in ENERGO BIOMASA Sp. z o.o. As at the end of 2018, Energetyczne Towarzystwo Finansowo – Leasingowe Energo Utech S.A. held 19.99% of shares in ENERGO-BIOMASA Sp. z o.o. ENERGO-BIOMASA Sp. z o.o. is jointly controlled by the shareholders.

## **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. Sokolska 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 2018, 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 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 2018, 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 2015, 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 11,819.00, is scheduled for 31 March 2020.

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, consolidated 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 three years, and their redemption will take place on 10 April 2022. The Other Terms and Conditions of A-Series Bonds Issue remain unchanged. The Issuer acquired its shares for redemption in the aggregate amount of PLN 13,300k, which makes the applicable issue value PLN 16,200k as at the date of preparing the financial statements.

The surplus of short-term liabilities to unrelated entities over the value of unencumbered short-term assets of the Company as at 31 December 2018 amounts to PLN 40,5m. The maturity date for the debt of PLN 11.89 million from the settlement of the acquisition of shares in ETF-L Energo Utech S.A. was extended by 31 March 2020. In April 2019 bonds totaling PLN 13.3 million were acquired for redemption.

This difference will be covered by dividends from subsidiaries, 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 from 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 2018. item 757, consolidated version).

## 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 2018 and 31 December 2018, 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	2018	2017
1.	Management authorities	380	312
2.	Supervisory authorities	257	280
<b>TOTAL</b>		<b>637</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:

Soecification	As at 31December 2018			
	shares	votes	shares [%]	votes[%]
Krzysztof Kwiatkowski*	1 033 499	1 033 499	32,82	32,82
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
Waldemar Organista	173 146	173 146	5,50	5,50
Zolkiewicz & Partners Inwestycji w Wartość	157 740	157 740	5,01	5,01
State Treasury	157 466	157 466	5,00	5,00
Summary	2 439 479	2 439 479	77,46	77,46

Including subsidiaries

**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 31 December 2018			
	shares	votes	shares [%]	votes[%]
Krzysztof Kwiatkowski*	1 033 499	1 033 499	32,82	32,82
Waldemar Organista	173 146	173 146	5,50	5,50
Summary	1 206 645	1 206 645	38,32	38,32

Including subsidiaries

**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**

By the Resolution No. 5/IX/2018 dated 25 May 2018, the Supervisory Board of Elektrociepłownia „Będzin” S.A. selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, at ul. Inflancka 4a (KRS 0000339379), to audit the Company's financial statements for 2018.

In 2018, pursuant to agreements of 17 July 2018 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 2017, pursuant to agreements of 19 June 2017 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 32k plus VAT.



## XXV ADDITIONAL INFORMATION

On 22 July 2016, the Company acceded to 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 to 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.

## XXVI EVENTS AFTER THE BALANCE SHEET DATE

In April 2019, 1,330 bonds totaling PLN 13,300k were redeemed, which, combined with the 2015 redemption of 50 bonds, takes the current issue value to PLN 16,200k.

Since 9 April, 2019, line with the amended Terms of Bond Issue, the issue validity period of the said bonds expires on 10 April 2022. The other Terms of Bonds Issue with respect to A series bonds remain intact.

Krzysztof Kwiatkowski - President of the Management Board

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Poznań, 25 April 2019

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**2018 Corporate Governance Statement  
Appendix 1 to**

**Report of the Management Board  
of Elektrociepłownia Będzin S.A.  
on the Company's activity in 2018**

**Elektrociepłownia Będzin S.A.**



## Appendix 1

### 2018 Corporate Governance Statement

In 2018, the Corporate Governance Statement in Elektrociepłownia "Będzin" S.A. (hereinafter ECB SA, the Company or the Issuer) was formulated pursuant to art. 70(6)(5) of the Ordinance 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) and corporate governance principles – the "Best Practice for GPW Listed Companies 2016" ("Best Practice"), adopted by force of Resolution of the Supervisory Board 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 2018, 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 the Resolution of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. 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 2018, 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 affiliated 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.*

The Company commenced work to design internal regulations on the methods of preventing, identifying and solving conflicts of interest, as well as, principles of excluding Members of Management Board or 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. 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 Ordinance 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, 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.

Financial statements examined by a chartered auditor are presented to the Company's Management Board which reviews the statements and submits the final version of the document to the Supervisory Board, together with opinion and report of the chartered auditor. The financial statements' examination by the Supervisory Board is preceded by the

statements' 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 statements is recorded in minutes and then, the Supervisory Board passes resolution presenting the Supervisory Board's opinion on the analysed financial statements. Minutes from the examination, together with the Supervisory Board's opinion on the analysed financial statements 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 Elektrociepłownia "Będzin" 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 2018, 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 2018			
	shares	votes	shares [%]	votes [%]
Krzysztof Kwiatkowski*	1 033 499	1 033, 499	32,82	32,82
Agio Funds TFI S.A.	334,74	334,74	10,63	10,63
Bank Gospodarstwa Krajowego	311,35	311,35	9,89	9,89
Familiar S.A. SICAV - SIR	271,52	271,52	8,62	8,62
Waldemar Organista	173,14	173,14	5,50	5,50
Zolkiewicz & Partners Inwestycji w Wartość	157,74	157,74	5,01	5,01
State Treasury	157,46	157,46	5,00	5,00
Total	2,439,47	2,439,47	77,46	77,46

\* including subsidiaries

#### 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 2. Competences of the Management Board**

Matters requiring the Management Board resolution
<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 obligated to report this fact to the Company without unnecessary delay.

### **Competences of the Supervisory Board**

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

The Company's Supervisory Board adopts resolutions by an absolute majority of votes of the Supervisory Board Members present at the meeting and in the presence of at least half of the Members of the Supervisory Board.

The Company's Supervisory Board performs the ongoing supervision over the Company's operations in all areas of its activity. The powers of the Supervisory Board include in particular the following:

### **Table no. 3. Competences of the Supervisory Board**

#### **Matters requiring the Supervisory Board resolution**

1. Accepting the rules and regulations of the Management Board of the Company and passing opinions concerning the organizational rules and regulations which describe the organization of business activity of the Company,
2. Accepting the business plan,
3. Adopting the rules of remuneration of the Management Board and the amount of remuneration for the members of the Management Board of the Company,
4. Appointing and dismissing the 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 composition, bankruptcy, 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>

#### **Governing rules 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**

Matters requiring the Annual General Meeting resolution
<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 leasing the enterprise, establishing usufruct right on the enterprise,</li><li>12. Raising and cancelling the Company's capital.</li><li>13. Any provisions concerning claims for redressing the damage 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 2018, the Management Board was composed of Krzysztof Kwiatkowski, President of the Management Board. The composition of the Management Board did not change in 2018.

#### **Management Board governing rules**

The governing rules of Elektrociepłownia "Będzin" S.A. Management Board are 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 29 June 2018 Mr Grzegorz Kwiatkowski resigned from the function of a Member of the Supervisory Board.

As at 31 December 2018, 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  | - Member of the Supervisory Board          |
| 4. Mirosław Leń       | - Member of the Supervisory Board          |
| 5. Wojciech Sobczak   | - Member of the Supervisory Board          |

### Supervisory Board governing rules

The governing rules of Elektrociepłownia "Będzin" S.A. Supervisory Board are 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 dismisses 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 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   |

With respect to Mr Grzegorz Kwiatkowski having resigned from the function of a Member of the Audit Committee on 25 May 2018, the Audit Committee was composed of the following individuals on 31 December 2018:

- |                       |                                   |
|-----------------------|-----------------------------------|
| 1. Janusz Niedźwiecki | - Chairman of the Audit Committee |
| 2. Waldemar Organista | - Member of the Audit Committee   |
| 3. Wojciech Sobczak   | - Member of the Audit Committee   |

The Members of the Audit Committee meet the criteria and requirements pursuant to the Article 70, Section 6, Item 5 of the Ordinance of the Minister of Finance on Current and Periodic Information Provided by the Issuers of Securities and the Conditions for Recognition as Equivalent of Information Required by the Law of a Non-Member State dated 29th March 2018 (i.e. Journal of Laws of 2018, item 757).

The majority of the Members of the Audit Committee meet the statutory independence criteria.

The Chairman of the Audit Committee meets the independence criteria as defined in the Appendix II to the Recommendation of the European Commission (EC) 2005/162/EC dated 15 February 2005.

One or more of the Members of the Audit Committee have:

- the knowledge and skills in accounting or auditing financial statements,
- the knowledge and skills in the Issuer's respective industry.

In 2018 the Committee held one meeting: on 25 May 2018.

In 2018 the auditing entity auditing the Issuer's financial statements did not provide to the Issuer any permitted non-audit services.

The following are the underlying assumptions of the Company's Policy to Select an Auditing Entity to Audit the Financial Statements:

- the total price offered for the review of interim and the audit of annual financial statements (increased by VAT as prescribed by statute) specifying the prices for individual interim reviews and annual audits of financial statements and the payment deadlines in respect of the services rendered;
- the scheduled deadlines for the works, in particular, to deliver auditor's opinions and reports;
- experience of the entity as regards auditing the statements of undertakings with a business profile similar to the Company's;
- - experience of the entity as regards auditing the statements of public-interest entities;
- composition of the audit team(s) dedicated to review and audit the financial statements, along with information on the experience and authorisations of the team members;
- independence of the certified auditor and the entitled entity.

The maximum duration of incessant engagement of the statutory audits performed by the same auditing entity or an auditing entity affiliated with the auditing entity or any member of the network operating in the EU states to which the auditing entities belong, must not exceed 5 years.

The following are the underlying assumptions of the Company's Policy on Providing Non-Audit Services by the Auditing Entity Performing Audit, the Entities Affiliated with the Auditing Entity and the Member of the Network of Auditing Entities:

- the Certified Auditor, the auditing entity performing the statutory audit of the Company's financial statements do not render to the Company any prohibited non-audit services, be it directly or indirectly,
- the prohibited services are not those referred to in Article 136, Section 2 of the Certified Auditors Act,
- rendering the services referred to in section 2 above is only possible as far as they do not pertain to the Company's tax policy, upon the Audit Committee having assessed the perils and safeguards of independence and having expressed its consent.

The recommendation of the Audit Committee on the selection of an auditing entity to audit the Company's 2018 financial statements met the applicable conditions. The recommendation was drawn up as a consequence of the Issuer's selection procedure which met the applicable criteria.

The main tasks of the Audit Committee were the following:

- monitoring the Company's financial reporting;
- monitoring the effectiveness of internal control, internal audit and risk management at the Company;
- monitoring financial revision at the Company;
- monitoring the independence of the certified auditor and the entity entitled to audit the Company's financial statements,
- drawing up and accepting the policy and procedure for the selection of an auditing entity auditing the financial statements,
- - drawing up the Company's policy on providing permitted non-audit services by the auditing entity performing audit, the entities affiliated with the auditing entity and a member of the network of auditing,
- producing recommendations aiming to provide for the reliability of the financial reporting process at the Company.

The Audit Committee is an advisory body to the Company's Supervisory Board to which it presents its recommendations. In particular, the Audit Committee recommends to the Company's Supervisory Board the entity entitled to audit financial statements for the purposes of the Company's financial review. The Company's Supervisory Board may pass a Resolution to Expand the Scope of the Operation of the Audit Committee by indicating other areas of the Committee's operation.

Krzysztof Kwiatkowski - President of the Management Board

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Poznań, 25 April 2019

**Assessment of the Supervisory Board of Elektrociepłownia  
"Będzin" SA regarding the issuer's management report  
and the financial statements with respect to consistency with the books,  
documents and the factual circumstances**

pursuant to §70, Section 1, Item 14 of the Ordinance of the Minister of Finance dated 29th March 2018.

The Supervisory Board of Elektrociepłownia "Będzin" SA declares that it assessed the following documents pursuant to Article 382 § 3 of the Companies and Partnerships Code:

- the Company's 2018 financial statements comprising:
  - a) balance sheet as of 31st December 2018 which shows PLN 153,932k (say: one hundred and fifty-three million nine hundred and thirty-two thousand Polish zloties) on the side of assets, shareholders' equity and liabilities,
  - b) profit and loss account for the period from 1st January 2018 to 31st December 2018 showing net profit in the amount of PLN 118k (say: one hundred and eighteen thousand Polish zloties),
  - c) statement of changes in shareholders' equity for the period from 1st January 2018 to 31st December 2018 showing increase in the balance of equity by PLN 118k (say: one hundred and eighteen thousand Polish zloties),
  - d) cash flow statement for the period from 1st January 2018 to 31st December 2018 showing decrease in the cash balance by PLN 537k (say: five hundred and thirty-seven thousand Polish zloties)
- the Issuer's management report for the 2018 financial year, with respect to consistency with the books, documents and the factual circumstances. Based on the analysis:
  - a) of the contents of the said statements/report submitted by the Company's Management Board,
  - b) of the documents and books of account, as well as the information provided by the Company's Management Board,
  - c) of the findings of additional audit activities performed in selected financial and operational areas,
  - d) having regard to the outcome of the meetings with the said auditing entity's representatives, including the key certified auditor,
  - e) information from the Audit Committee on the course, findings and the significance of the audit to the reliability of financial accounting at the Company and the Committee's role in auditing the financial statements, positively assessed the said statements/report.

Based on the knowledge about the Company and the activities with respect to preparing and auditing the said statements/report, the Supervisory Board of the Company finds that the Issuer's management report and the financial statements for 2018 were prepared in compliance with the applicable provisions of law and that they are consistent with the books of account, documents, the factual circumstances, they contain the actual view of the developments and achievements, and they do not raise reservations as for the form and contents of the report/statements.

Janusz Niedźwiecki .....

Wiesław Głanowski .....

Waldemar Organista .....

Mirosław Leń .....

Wojciech Sobczak .....