

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 Elektrociepłownia 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 §71, Section 1, Item 6
(on the Reliability of the Financial Statements)
and
Information of the Management Board pursuant to §71, Section 1, Item 7
(on the Auditing Entity)
of the Ordinance of the Minister of Finance dated 29 March 2018.

In conjunction with § 71, 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 § 71, 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 §71, Section 1, Item 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

.....

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

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE ACCOUNTING YEAR
ENDING ON 31 DECEMBER 2018
COMPLIANT WITH THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS APPROVED BY EU**

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Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2018
(as per the IFRS of the EU, in PLN k)

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1. General information

These financial statements for the period of 12 months ending on 31 December 2018 have been produced pursuant to the International Financial Reporting Standards approved by the European Union.

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

- Consolidated statement of financial position produced as at 31 December 2018,
- Consolidated Profit and Loss Account and other comprehensive income for the period from 1 January to 31 December 2018,
- Consolidated statement of changes in equity for the period from 1 January to 31 December 2018,
- Consolidated Cash flow statement for the period from 1 January to 31 December 2018,
- Additional information to the consolidated financial statements.

Management Board of Elektrociepłownia "Będzin" S.A.

Krzysztof Kwiatkowski
President of the Management Board

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

Bożena Poznańska

Poznań, 25 April 2019

2. Consolidated statement of financial position

	Note	As at 31.12.2018	As at 31.12.2017
Assets			
Fixed assets			
Tangible fixed assets	19	238 537	251 643
Intangible assets	20	3 530	4 187
Goodwill	11	1 937	1 937
Receivables under lease agreements	22	194 252	223 622
Granted loans	23	11 175	10 669
Trade debtors and other debtors	24	1 500	1 500
Deferred tax assets	21	383	971
Total fixed assets		<u>451 314</u>	<u>494 529</u>
Current assets			
Inventories	25	29 263	20 546
Receivables under lease agreements	22	94 978	113 412
Granted loans	23	37 936	27 774
Trade debtors and other debtors	24	22 462	23 397
Income tax receivables		1 914	411
Cash and cash equivalents	26	24 642	30 228
Accruals	27	78	77
Total current assets		<u>211 273</u>	<u>215 845</u>
Total assets		<u>662 587</u>	<u>710 374</u>

Explanatory notes to consolidated financial statements represent its integral part

	Note	As at 31.12.2018	As at 31.12.2017
Liabilities			
Equity	28		
Share capital		37 728	37 728
Supplementary capital		67 613	48 288
Reserve capital		44 843	44 843
Capital from revaluation of defined benefits plan		(393)	(125)
Retained profits		22 451	38 960
Total equity		<u>172 242</u>	<u>169 694</u>
Long-term liabilities			
Liabilities under loans, borrowings and other debt instruments	30	216 700	289 099
Liabilities under employee benefits	31	5 622	9 305
Trade creditors and other	32	501	5 597
Provisions	33	-	4 744
Deferred income tax provisions	21	8 078	8 496
Total long-term liabilities		<u>230 901</u>	<u>317 241</u>
Short-term liabilities			
Liabilities under loans, borrowings and other debt instruments	30	167 832	172 530
Trade creditors and other creditors	32	41 027	31 788
Liabilities under employee benefits	31	3 600	4 754
Deferred income tax liabilities		437	465
Provisions	33	46 548	13 902
Total short-term liabilities		<u>259 444</u>	<u>223 439</u>
Total liabilities		<u>490 345</u>	<u>540 680</u>
Total liabilities		<u>662 587</u>	<u>710 374</u>

Explanatory notes to consolidated financial statements represent its integral part

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

	Note	For period 01.01.2018 - 31.12.2018	For period 01.01.2017 - 31.12.2017
Revenues	13	207 049	204 757
Other operating revenues	14	7 758	7 448
Amortization and depreciation		(19 210)	(19 361)
Consumption of materials and energy		(120 506)	(89 326)
External services		(17 958)	(23 285)
Taxes and charges		(4 642)	(5 741)
Payroll and employee benefits		(20 745)	(28 600)
Other costs by type		(2 006)	(1 877)
Value of goods and materials sold		(4 634)	(2 095)
Other operating expenses	15	(2 314)	(2 085)
Profit on operating activities		22 792	39 835
Financial revenues	16	4 084	1 592
Financial expenses	16	(21 592)	(22 182)
Net financial revenues/ (expenses)		(17 508)	(20 590)
Share in net loss of entities accounted for using the equity method		(505)	-
Gross profit		4 779	19 245
Income tax	18	(1 963)	(4 899)
Net profit		2 816	14 346
Net profit for reporting term		2 816	14 346
Other total income not taken to financial result in future reporting periods			
Revaluation of net liability under defined benefits plan		(331)	(483)
Income tax on items not taken to financial result		63	92
		(268)	(391)
Other comprehensive income for reporting period		(268)	(391)
Profits or losses and other comprehensive income for reporting period		2 548	13 955
Net profit per share			
Main (in PLN)	29	0,9	4,6
Diluted (in PLN)	29	0,9	4,6

Explanatory notes to consolidated financial statements represent its integral part

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2018
(as per the IFRS of the EU, in PLN k)

4. Consolidated statement of changes in equity

	Note	Share capital	Supplementary capital	Reserve capital	Defined benefits plan revaluation reserve	Retained profits	Total equity
Equity as at 01.01.2018		37 728	48 288	44 843	(125)	38 960	169 694
Net profit distribution		-	19 325		-	(19 325)	-
Profits or losses for reporting period							
Net profit for reporting period		-	-	-	-	2 816	2 816
Other comprehensive income for reporting period							
Revaluation of net liability under defined benefit plan (adjusted by tax)	31	-	-	-	(268)	-	(268)
Profits or losses and other comprehensive income for reporting period					(268)	2 816	2 548
Total payments to and from owners							
		-	-	-	-	-	-
Equity as at 31.12.2018		37 728	67 613	44 843	(393)	22 451	172 242

	Note	Share capital	Supplementary capital	Reserve capital	Defined benefits plan revaluation reserve	Retained profits	Total equity
Equity as at 01.01.2017		37 728	46 362	26 938	266	45 465	166 739
Net profit distribution		-	2 936	17 905	-	(20 841)	-
Profits or losses for reporting period							
Net profit for reporting period		-	-	-	-	14 346	14 346
Other comprehensive income for reporting period							
Revaluation of net liability under defined benefit plan (adjusted by tax)	31	-	-	-	(391)	-	(391)
Profits or losses and other comprehensive income for reporting period					(391)	14 346	13 955
Total payments to and from owners							
		-	-	-	-	-	-
Equity as at 31.12.2017		37 728	48 288	44 843	(125)	38 960	169 694

Explanatory notes to consolidated financial statements represent its integral part

5. Consolidated cash flow statement

	Note	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Cash flows from operating activity			
Gross profit		4 779	19 245
<i>Adjustments</i>			
Depreciation of tangible fixed assets	19	18 324	18 478
Amortisation of intangible assets	20	733	883
Profit on investment activity		(188)	(406)
Share in losses of entities accounted for using the equity method		505	-
Change in receivables under lease agreements	37	72 674	15 363
Change in granted loans		(10 318)	(2 663)
Change in inventories		(8 717)	6 416
Change in trade debtors and other debtors	37	919	17 028
Change in trade creditors and other creditors	37	137	(2 023)
Change in provisions for employee benefits	37	22 740	(2 430)
Change in accruals		717	(46)
Other changes	37	(1 076)	(467)
Cash flows from operating activity		101 229	69 378
Net financial revenues/(costs)	16	21 285	20 311
Received interest		(157)	(299)
Income tax paid	37	(3 233)	(7 434)
Net cash flows from operating activity		119 124	81 956
Cash flows from investment activity			
Purchase of tangible fixed assets		(4 287)	(8 873)
Purchase of intangible assets		(76)	(249)
Purchase of shares and interests		-	(505)
Disposal of tangible fixed assets		529	2 132
Disposal of other investments		-	872
Interest received		158	299
Other receipts/payments		2 035	492
Net cash flows from investment activity		(1 641)	(5 832)
Cash flows from financial activity			
Raised loans, credits and other debt instruments		206 916	187 087
Repaid loans, credits and other debt instruments		(307 132)	(234 154)
Payments under financial lease agreements		(1 474)	(1 399)
Interest paid	16	(21 196)	(19 646)
Net cash flows from financial activity		(122 886)	(68 112)
Total net cash flows from financial activity		(5 403)	8 012
Opening balance of cash and cash equivalents		30 228	22 216
Change in the classification of financial assets		(183)	-
Closing balance of cash and cash equivalents		24 642	30 228
including restricted cash		9 381	7 690

Explanatory notes to consolidated financial statements represent its integral part

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The consolidated financial statements for the period from 1 January to 31 December 2018 incorporate the financial statements of the parent company and its subsidiaries (referred to jointly as the "Capital Group").

The share capital of the parent entity totals PLN 15,746.00 and is divided into 3,149,200 shares series A with the nominal value of PLN 5 each. The equity has been revaluated as per the information referred to in Note 28.

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

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

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

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

Subsidiaries as at 31 December 2018

Name and registered office	Consolidation method	Country	Share %	
			31.12.2018	31.12.2017
Elektrociepłownia BĘDZIN Sp. z o.o. ul. Małobądzka 141, Będzin	full	Poland	100	100
Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A. Ul. Bolesława Krzywoustego 7, Poznań	full	Poland	100	100

Joint ventures as of 31 December 2018

Entity's name and registered office	Country	Share %	
		31.12.2018	31.12.2017
Energo-Biomasa Sp. z o. o. Suliszewo 97, Drawsko Pomorskie	Poland	19.99	99.95

On 16 April 2018 the General Meeting of Shareholders of ENERGO-BIOMASA Spółka z o.o. passed a resolution to increase the Company's share capital up to PLN 2,500k, which reduced the share of Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A. to 19.99%. The capital increase was registered in the National Court Register on 6 September 2018.

On 16 April 2018 the Articles of Association of ENERGO-BIOMASA Spółka z o.o. were so amended that the company became jointly controlled by its shareholders, i.e.:

- by introducing a requirement of a unanimous resolution of the General Meeting in the presence of 100% of share capital in case on voting financial and operational policy,

- by granting to the shareholder, Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A. with registered office in Poznań, the right to appoint and dismiss the President of the Management Board,
- by granting to Ms Zofia Fabich, a shareholder, the right to appoint and dismiss the Deputy President of the Management Board.
- by a requirement for the company to be represented by two individuals: two Board Members jointly or a Board Member with the Proxy appointed by the Management Board of ENERGO-BIOMASA Spółka z o.o.

The amendment to the Articles of Association of ENERGO-BIOMASA Spółka z o.o. caused excluding the company from consolidation and adopting the equity method for the shares in the company. The consequences of losing control over the entity were included in note 16.

As at the day of approving these consolidated financial statements for issue and as at 31 December 2018, the composition of the management and supervisory bodies of the parent company was as follows:

Management Board

Krzysztof Kwiatkowski - President of the Management Board

Supervisory Board

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

Audit Committee at the Supervisory Board

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

7. Basis for the consolidated financial statements

7.1 Statement on compliance

These consolidated financial statements for the period from 1 January to 31 December 2018 have been produced as per the International Financial Reporting Standards ("IFRS") approved by the European Union ("EU") and the Resolution of the Ministry of Finance dated 29 March 2018 (Journal of Laws from 2018, items 512 and 685) on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as being equivalent to information required by regulations of law of a state which is not a member state.

7.2 Basis for valuation

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

7.3 Functional and presentation currency

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

7.4 Going concern

The consolidated financial statements were prepared on going concern basis. The Group defines and actively manages the liquidity risk construed as potential to lose or to limit the capacity to pay the

current expenditures. In spite of an excess of short-term payables over the current assets as of the reporting date, the Group is fully capable of paying its dues on time. Further, there occurred some major events after the balance sheet date (referred to in note 42) which impact the aging structure of the Group's liabilities.

The excess of short-term payables to unaffiliated entities over the value of the Group's unencumbered current assets as of 31 December 2018 amounts to PLN 48.2 million.

On 10 April 2019 the terms of issue related to „A” series bonds in the amount of PLN 16.2 million were amended so that the issue period was extended to 10 April 2022.

Moreover, changes were provided concerning the maturity of certain short-term liabilities as of 31 December 2018. The repayment deadline for short-term liabilities to unaffiliated entities in the amount of PLN 7.0 million was extended respectively: PLN 2.3 million – by 28 February 2020, and PLN 4.7 million – by 31 March 2020. As a result of the said events after balance sheet date, the said excess was reduced to PLN 25 million to be covered by the Group with the funds generated by the Group in 2019.

7.5 Judgements and estimates

For the financial statements to be prepared in accordance with IFRS, EU requires that the Management Board of the Parent Entity make judgements, estimates and assumptions which impact the use of the accepted accounting principles and the presented values of assets, liabilities and shareholders' equity, revenues and costs the actual value of may vary from the estimated value.

The estimates and related assumptions are verified on ongoing basis. Changes to the accounting estimates are recognised prospectively starting from the period in which the estimate was changed.

The major judgements and estimates made by the Parent Entity's Management Board while preparing the consolidated financial statements remained intact versus the judgements and estimates accepted while preparing the 2017 consolidated financial statements.

8. Description of key accounting principles

These consolidated financial statements of the Group were prepared on the basis of accounting principles employed for the 2017 consolidated financial statements, save for the newly adopted standards: IFRS 15 "Revenues from Contracts with Customers", IFRS 9 "Financial Instruments".

IFRS 9 "Financial Instruments"

Principles for qualifying and measuring financial assets and liabilities

As provided by an option inherent in the standard, the Group gave up restating comparable data. The figures as of 31 December 2017 and for the 12 months' period ending on 31 December 2017 were prepared on the basis of IAS 39 *Financial Instruments: Recognition and Measurement*.

Starting 1 January 2018, at initial recognition, the Group has classified the financial assets under one of the three categories:

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

The Group classified its financial assets under the respective category depending on:

- the model of financial assets management employed by the entity and
- the characteristics of the estimated cash flows from a given asset.

A financial asset is measured at amortised cost if the following two conditions are met:

- assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest on principal amount outstanding.

As the Group deemed it possible to directly translate the category of financial assets under IAS 39 *Financial Instruments: Recognition and Measurement* into IFRS 9 *Financial Instruments*, the Group devised a methodology of classifying financial assets whereunder principles were created for testing the characteristics of cash flows and the principles for business model testing. Based on the principles, the Group performed business model tests and SPPI tests for all the financial assets which were material as of 1 January 2018.

In accordance with the business model, the Group's financial assets are characterised by cash flows corresponding to the repayment of principal and interest and are held to derive cash flows by the maturity date.

The following assets fall under the category of those measured at amortised cost in the statement of financial position: trade receivables, loans extended, other receivables and cash and equivalents.

The financial assets measured at amortised cost are measured at amortised cost based on the effective interest method, including impairment. Trade receivables maturing within less than 12 months are not discounted and they are measured at nominal value.

The Group does not hold any other financial assets save for lease receivables which are only subject to IFRS 9 as regards impairment.

Starting January 2018, at initial recognition, the Group classifies its financial liabilities under one of the following categories:

- measured at amortised cost,
- measured at fair value through profit or loss

The Group does not hold any material liabilities measured at fair value through profit or loss. An analysis has shown that the method of measuring financial assets and liabilities employed so far by the Group has not changed (as of 1 January 2018).

Item in the statement of financial position	IAS 39 category	IAS 39 value in millions	IFRS 9 category	IFRS 9 value
Loans extended	Loans and receivables (amortised cost)	38.4	Measured at amortised cost	38.4
Trade receivables and other receivables	Loans and receivables (amortised cost)	24.9	Measured at amortised cost	24.9
Cash and equivalent	Cash and equivalent (amortised cost)	30.2	Measured at amortised cost	30.2
Liabilities from credits, loans, other debt instruments and other liabilities	Other liabilities (amortised cost)	461.6	Measured at amortised cost	461.6

Impairment of Financial Assets

IFRS 9 *Financial Instruments* replaces the previous principles for recognising credit losses based on loss incurred with a concept of expected loss resulting in the recognition of impairment provision as early as at the initial recognition. The requirements regarding the impairment of financial assets relate to the financial assets measured at amortised cost and at fair value through comprehensive income.

The Group has identified the below categories of financial assets whereunder the impact of the expected credit losses on the consolidated financial statements was verified based on IFRS 9 *Financial Instruments*:

- finance lease receivables,
- loans granted,
- receivables from offtakers.

In case of receivables from finance lease and loans it is expected that the repayment record may reflect the credit risk to be carried in subsequent periods. The expected credit loss impacting contractors has been estimated with the use of receivables portfolio matrix and by assigning percentage indicators which allowed estimating the value of the amounts due from offtakers expected not to repay their dues (the analysis also covered the data on repayment record, overdue periods, share of losses incurred as per category of receivables).

In case of deterioration of the contractors' financial standing identified as arrears in the payment of financial dues over 90 days, the Group also performs its individual risk assessment and estimates related losses on the basis of quality and quantity data, the quality and value of security in place, the estimated value of leased assets.

The credit risk indicators are estimated on the basis of historical data for the period from 2013 to 2018 with reference to:

- lease receivables – 0.25% of the gross portfolio,
- loan receivables – 0.16% of the gross portfolio.

The above indicators pertain to the value of entire portfolios and the impairment concerned the exposures with overdues in excess of 90 days. The Group adopted the value as an indicator of material deterioration of contractors' credit standing, which is analysed by the Group on one-by-one basis.

The employment of IFRS 9 *Financial Instruments* in the expected credit loss did not impact the Group's retained profits as of 1 January 2018.

IFRS 15 Revenues from Contracts with Customers

Next to defining how and when revenues are recognised, this standard also requires more detailed disclosures. The standard has replaced IAS 18 *Revenues*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfers of Assets from Customers* and numerous interpretations related to recognising revenues.

The major principles introduced by IFRS 15 *Revenues from Contracts with Customers* comprise the following:

- a five – degree revenue recognition model which adopts the following order: identifying the contract with customer, identifying individual performance obligations, determining the transaction price, allocating the transaction price to individual performance obligations and recognition of revenue arising from a contract liability;
- recognising revenues at the moment of satisfying (or in the course of satisfying) the performance obligation binding on the entity to transfer the asset. An asset is transferred when control of the asset is transferred;
- determining the transaction price in the amount of consideration to which the entity expects to be entitled in exchange for transferring assets or services excluding amounts collected on behalf of third parties.

In accordance with the requirements of IFRS 15, the Group recognises the revenues from contracts with customers as broken down into categories which reflect the impact of economic factors on the nature, timing and uncertainty of revenues and cash-flows. In particular, the Group is bound to disclose the quantitative and qualitative information on: contracts with customers, key estimates and assumptions adopted by the entity and the capitalized costs of obtaining contracts and satisfying their terms and conditions.

Impact on the consolidated financial statements as of 1 January 2018

The IFRS 15 standard pertains to the revenues generated by the Group in the power segment. The revenues from the financial segment are governed by separate standards.

The Group has complied with the standards of IFRS 15 "Revenues from Contracts with Customers" and it applied a modified retrospective approach, i.e. recognizing the cumulative effect of initially applying the standard on the first day of its application. As provided by IFRS, the Group elected not to restate the comparable figures. The figures as of 31 December 2017 and for a period of 12 months ending on 31 December 2017 were prepared on the basis of IAS 18 *Revenues*, IAS 11 *Construction Contracts*, IFRIC 18 *Transfers of Assets from Customers* and the interpretations pertaining to the recognition of revenues before IFRS 12 *Revenues from Contracts with Customers* came into effect.

Contracts with customers were analysed as regards the correct calculation of revenues in line with IFRS 15:

1. Identifying the contract with customer – the contractual arrangements govern the Group's sales of heat and electricity to strategic customers. Electricity is also sold through the stock market.
2. Identifying performance obligations – the valid contract with the strategic customers contains only one performance obligation which pertains to the supply of heat or electricity within specified timelines. Satisfying the performance obligation and calculating revenues apply to the supplies made during the reporting period, based on a detailed record of energy volumes supplied.
3. Determining the transaction price – the contractual price for heat is based on the applicable tariffs, electricity prices are based on stock exchange indices, for each supply separately. No other arrangements apply which could have an impact on the determined transaction price.
4. Allocating the transaction price to individual performance obligations – the Group allocated a transaction price to every performance obligation in such an amount that reflects the amount of the consideration it is entitled to in exchange for transferring the promised goods and services to the customer.
5. Revenue recognition at the moment of performing the contractual obligation - The revenue is recognised the moment the assets and services are transferred to the customer and the customer takes control over the asset – the moment of transferring identifiable energy volumes to heat or power grid. The revenues are recognised in the amount equal to the transaction price. The settlement of amounts of due revenues follows a monthly basis as per the volumes supplied in the period, and the payment deadlines are 30 days.

Based on the analysis performed, the Group finds that the implementation of IFRS 15 does not impact the shareholders' equity as the manner of recognizing the revenues covered by IFRS 15, based on the contracts with customers, has not changed.

A number of new Standards, amendments to the Standards and Interpretations do not apply to the annual periods commencing on 1 January 2018 as yet. Therefore, they were not applied in these consolidated financial statements.

— IFRS 16 *Leases* – for the periods commencing on 1 January 2019,

The Group is a party to a number of finance lease and operating lease contracts as the lessor.

The Group is not, however, a party (as a lessor) to key operating lease contracts or contracts for lease with the right to collect fruits. In the absence of major discrepancies as regards the criteria for classifying individual contracts between IFRS 16 *Leases* and the previous standards binding on the lessors and the Group's respective accounting policy (the key criterion for the transfer of risks and benefits arising from the possession of the identified assets, conclusive for the recognition of individual contracts), the Group does not expect any material impact of the new standard on the financial statements.

— Sale or Distribution of Assets between the Investor and an Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and to IAS 28 Investments in Associates and Joint Ventures) – the date of entry into force has not been specified,

— IFRIC 23 Uncertainty over Income Tax Treatments - for the period commencing on 1 January 2019,

— Amendments to IFRS 9 Financial Instruments – for the periods commencing on 1 January 2019,

— Amendments to IAS 28 Investments in Associates and Joint Ventures – for the periods commencing on 1 January 2019,

— Amendments to the International Financial Reporting Standards 2015-2017 – for the periods commencing on 1 January 2019,

— Amendments to IAS 19 Employee Benefits (Plan Amendment, Curtailment or Settlement) – for the periods commencing on 1 January 2019.

The Group expects that at the initial application of the above said standards, the standards will not have a material impact on the financial statements.

The Group has not decided to apply earlier any of the standards, interpretations or amendments that have been published, yet not come into force in the light of EU law.

8.1 Consolidation principles

Subsidiaries

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

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

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

Associates and joint ventures

Associates are business entities whose operational and financial policies are under a significant influence of the Capital Group but are not controlled by the Group. It is assumed that a significant influence takes place when the Capital Group holds between 20% and 50% of voting rights in another entity. Joint ventures are entities over which the Capital Group exercises joint control and the control split is defined in an agreement while the strategic operating and financial decisions require a unanimous consent of the parties involved.

Investments in associates and joint ventures are settled in consolidated financial statements using the equity method (investments settled with equity method), and are initially recognized at purchase price. Investments of the Capital Group include the company's goodwill recognised at the purchase less the value of cumulated losses arising from impairment. The consolidated financial statements of the Capital Group present the Capital Group's share in profits and losses and changes in the equity of associates settled with the equity method (after standardizing applicable accounting principles), as of

the commencement of significant impact or joint control until their expiry. If the Capital Group's share in losses exceeds the value of shares in an associate or joint venture, the balance sheet value (taking into account long-term investments) is reduced to zero. Then recognition of any additional losses is discontinued except for losses resulting from adoption by the Capital Group of legal or constructive obligations or from payment made on behalf of an associate or joint venture.

Consolidation procedures

The following consolidation procedures are adopted when producing consolidated financial statements:

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

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

8.2 Foreign currencies

Transactions in foreign currencies

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

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

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

8.3 Financial instruments

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

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

Non-derivate financial instruments

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

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

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

Financial assets at fair value through profit and loss account

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

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

Financial assets held to maturity

Financial assets held to maturity are non-derivative financial instruments with fixed or determinable payments the Capital Group intends and is able to hold until their maturity, with the following exceptions:

- financial assets recognized at fair value through profit and loss account at the initial recognition;
- financial assets held for sale;
- financial assets meeting the criteria of being qualified to the category of loans and receivables.

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

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

Loans and receivables

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

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

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

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

Financial assets held for sale

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

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

Non-derivative financial liabilities

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

Financial liabilities are deleted from the Capital Group's books when they are repaid, cancelled or become time-barred.

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

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

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

Equity

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

8.4 Lease agreements

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

Finance lease agreements with the Capital Group as a lessor

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

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

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

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

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

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

Operating lease agreements with the Capital Group as a lessor

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

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

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

Lease agreements with the Capital Group as a lessee

Assets purchased by way of financial lease are initially recognised at fair value or current value of minimum lease payments, whichever is lower, and then reduced with depreciation and impairment charges.

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

8.5 Inventories

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

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

8.6 Cash and cash equivalents

Cash and cash equivalents incorporate cash at hand and bank demand deposits of the initial maturity up to three months. The balance of cash and cash equivalents recognised in the cash flow statement comprises the above said cash and cash equivalents less unpaid overdraft facilities which constitute an inherent part of the Group's cash management system.

8.7 Tangible fixed assets

Recognition and valuation

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

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

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

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

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

Profit and loss from disposal of tangible fixed asset are defined based on the comparison of revenues from disposal against the balance sheet value of disposed assets and are recognized in net amount

as a profit or loss of the current period under the item other revenues or operating costs. When the sale refers to previously revaluated assets, the remaining amount is transferred to retained profits.

Subsequent expenditure

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

Depreciation

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

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

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

buildings and constructions	1.5% - 17%
machines and equipment	3.34% - 63.16%
means of transportation	7% - 33.33%
other tangible fixed assets	8.28% - 25%

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

8.8 Intangible assets

Intangible assets

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

Subsequent expenditures

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

Amortisation

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

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

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

Software	10% - 50%
Relations with customers	10%

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

8.9 Trade and other receivables

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

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

8.10 CO₂ emission allowances / energy certificates

CO₂ emission allowances

Emission allowances granted free of charge

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

If the allowances for a given period are not registered in the Registry, the Capital Group recognizes as inventories, in correspondence with future periods revenues, the expected attributable free of charge allowances to CO₂ emission estimated as the product of expected allowances for a given year and fair value of allowances at the balance sheet date.

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

Purchased emission allowances

Purchased emission allowances are recognised at purchase price.

Allocation/Cancellation

Air pollution provisions are recognised as costs of goods sold (cogs) and measured in the following manner:

- if the allowances held by the Capital Group are sufficient to cover its emission-related obligation: as a product of allowances to be cancelled as a result of emissions made and single cost of emission allowance held by the Capital Group and attributable as at the balance sheet day. Consolidated cost of allowances for estimated emission is calculated with FIFO method.

- if the Capital Group does not hold allowances sufficient to cover its emission-related obligation: as a product of allowances held by the Capital Group and attributable as at the balance sheet day and single cost of emission allowance increased by fair value of missing emission allowances. are recognised at purchase price.

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

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

Energy certificates of origin

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

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

8.11 Impairment charges

Financial assets (including receivables)

At the end of each reporting period the Capital Group assesses if there is objective evidence for impairment of financial assets not measured at fair value through profit and loss account.

Impairment of financial asset is assumed when after its initial recognition there are objective indicators for occurrence of an event generating impairment which may have a negative, reliably estimated impact on the value of future cash flows related to a given asset.

Objective indicators for impairment of financial assets are:

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

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

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

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

Non-financial assets

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

Recoverable amount is defined as the higher of assets' net value from sale and their value in use. When estimating the value in use future cash flows are discounted with interest rate before taxation which reflects the current market time value of money and risk factors typical for a given asset.

Capital Group assesses impairment of the company's goodwill by grouping the cash generating entities so that each organisational segment, not higher than the separated operational segment, affected with the assessment reflects the lowest organizational level where the Capital Group monitors the company's goodwill for internal reasons.

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

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

8.12 Employee benefits

Defined contribution plan

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

Defined benefits plan

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

Retirement severance pay (defined benefits plan)

Under the applicable law, the Capital Group is obliged to make retirement severance pays in the amount stipulated in the Labour Code applicable as at the payment date.

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

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

Disability retirement severance pay (defined benefits plan)

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

Death in service benefits (defined benefits plan)

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

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

Other long-term employees' benefits

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

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

Short-term employee benefits

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

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

8.13 Provisions

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

8.14 Interest bearing credits and loans

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

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

8.15 Trade creditors and other creditors

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

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

8.16 Revenues

Sale of finished goods/products

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

Revenues from sale of heat

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

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

Revenues from sale of electric energy

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

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

Rendered services

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

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

Revenues from financial lease agreements and loan agreements

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

Revenues from operating lease agreements and rental agreements

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

Sale of emission allowances

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

Energy certificates of origin

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

Double entry of granted property rights arising from the certificates of origin is made by recognizing revenues from sale of energy. The difference between sale price of certificates of origin and the value recognised based on market price in the generation month is recognized under revenues from sale of energy.

8.17 Net financial revenues (costs)

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

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

8.18 Income tax

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

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

Deferred tax is recognised in relation to temporary differences between the balance sheet value of assets and liabilities and their value determined for tax purposes. Deferred tax is measured with the use of tax rates projected to be applicable in case of reversal of temporary differences based on legal or actual tax regulations applicable by the reporting day. Deferred income tax assets and deferred income tax provisions are offset if the Capital Group, at the unit level, holds enforceable legal title for offsetting current tax assets and liabilities provided the deferred income tax assets and provisions refer to the income tax imposed by the same tax authority, on the same tax payer or various payers who intend to settle the income tax receivables and liabilities in net amounts or simultaneously realize the receivables and settle the liability.

Deferred tax assets related to unsettled tax loss and negative temporary differences are recognized up to the likely amount of taxable income to be generated enabling their realisation. Deferred tax assets are re-measured at each reporting day and reduced to the extent the related income tax benefits are not likely to be realised.

8.19 Costs by type

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

In its consolidated financial statement of comprehensive income the Capital Group presents the following costs by type:

- Amortisation/depreciation,
- Consumption of materials and energy,
- Third party services,
- Taxes and fees,
- Remuneration and employee benefits,
- Other costs by type.
- Value of goods and materials sold.

9. Fair value measurement

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

10. Financial risk management

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

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

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

As of 31 December 2018 the Group's short-term liabilities amounted to PLN 259,444k and they outweighed the current assets by PLN 48,171k. The excess was mainly attributable to the necessity to settle the payments and the sources of financing the acquisition of the shares in Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A. in 2015.

The Group's profitability is secured with long-term contracts for heat supply, prosperity on the electricity market, as well as with long-term contracts for lease and lease with the right to collect fruits.

In the opinion of the Parent Company's Management Board, a substantial portion of the said gap may be filled in with funds constituting a surplus of the cash flows generated by the Group by the maturity of the individual short-term financial liabilities. In order to fill in the remaining portion of the financial gap, the Group has taken up measures to:

- gain extra long-term credit funds,
- extend the maturity of a portion of financial liabilities from financing the acquisition of shares with Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A.,
- raise extra long-term funds from investors, under the issue of debt securities.

Note 42 provides a detailed account of the events having an impact on the identified liquidity risk which arose after the balance sheet date and by the publication of these statements.

11. Company Goodwill

On 15 April 2015, Elektrociepłownia „Będzin” S.A. took over control over Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A...

The core business activity of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. is financial-services activity in the form of renting, leasing and providing access to fixed assets in another form.

Purchase price

Elektrociepłownia "Będzin" S.A. purchased 100% of shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. for PLN 49,600.32 paid in instalments.

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

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

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

At the end of current period, the Capital Group performed goodwill impairment testing for the financial segment. Impairment testing of goodwill on the balance sheet as at 31 December 2018 was performed against net assets increased by the goodwill on the level of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.(totalling PLN52.192k). The recoverable amount of goodwill was measured based on its value in use.

Estimated projections for future cash flows were produced taking into account detailed financial projections for 2019-2024. Terminal value was estimated through extrapolation of projected free cash flows outside the plan using each time adequate growth rate. Weighted average cost of capital of 10.70% was applied. The value in use of the segment was PLN 52.560k at the testing date, i.e. 31 December 2018.

The estimated use value of the net assets is largely based on the assumptions pertaining to the level of finance lease annual sales at PLN 170 million. In case the parameter is changed by 1%, the estimated use value changes by 3.8%.

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

12. Business segments reporting

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

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

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

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

Operational segments for period 01.01.2018 - 31.12.2018	Energy segment	Financial segment	Total
Revenues from external customers	176 336	30 713	207 049
Other operational revenues	6 611	1 147	7 758
Segment total revenues	182 947	31 860	214 807
Amortisation	(15 039)	(4 171)	(19 210)
Consumption of materials and energy	(120 322)	(184)	(120 506)
Third party services	(16 524)	(1 434)	(17 958)
Taxes and fees	(3 923)	(719)	(4 642)
Remuneration and employee benefits	(15 052)	(5 693)	(20 745)
Other costs by type	(458)	(1 548)	(2 006)
Value of sold goods and materials	(4 634)	-	(4 634)
Other operating costs	(1 249)	(1 065)	(2 314)
Operational activity bottom line	5 746	17 046	22 792
Financial revenues	3 303	781	4 084
Financial expenses	(3 643)	(17 949)	(21 592)
Financial income/costs not allocated			
Loss from shares in affiliates accounted for using the equity method	-	(505)	(505)
Gain/(Loss) before tax	5 406	(627)	4 779
Income tax	(434)	(1 529)	(1 963)
Net profit	4 972	(2 156)	2 816

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Assets and liabilities of segments as at 31.12.2018	Energy segment	Financial segment	Total
Segment assets	284 431	378 156	662 587
Total assets	284 431	378 156	662 587
Segment liabilities	119 775	370 570	490 345
Total equity	164 656	7 586	172 242
Total liabilities and equity	284 431	378 156	662 587

From 1 January to 31 December 2018 capex for tangible fixed assets in the energy segment totalled PLN 4.247k and PLN 40k in the financial segment.

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

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

Energy sector revenues from	31.12.2018	31.12.2017
Electric energy	89 933	65 394
Thermal energy	81 105	89 629
Pellet	-	15 412
Other	5 298	3 216
Closing balance	176 336	173 651

Electricity sales through the Polish Power Exchange [Towarowa Giełda Energii] at the current wholesale prices, for the supplies made in the contractual periods (short-term). The revenues are recognised in the supply period, the payment deadline from 7 to 30 days.

Heat sales to an entity from the Group of Tauron Polska Energia S. A. at tariff prices, for the supplies covered by long-term contracts. The revenues are recognised in the supply period, the payment deadline from 7 to 30 days. Pellet and other sales are based on short-term contracts.

Income from the financial segment due to	31.12.2018	31.12.2107
Lease, rent	26 602	27 716
interest from loans/factoring	2 903	2 666
Other	1 208	724
Closing balance	30 713	31 106

Transactions between business segments in 2018

Revenues/ Costs	energy segment	energy segment
energy segment	-	47
financial segment	3 954	-

Receivables/ Liabilities	energy segment	energy segment
energy segment	-	-
energy segment	46 096	-

The operations of the power segment are characterised by credit risk concentration – the majority of sales revenues derive from the sales of products to the entities of the Group of Tauron Polska Energia S.A.

The operations of the power segment are affected by seasonality pertaining to heat sales. The operational profitability in heat sales is characterised by lower profitability of assets in the summer period as a result of lesser demand for heat.

13. Revenues

Revenues	For period 01.01.2018 - 31.12.2018	For period 01.01.2017 - 31.12.2017
Revenues from sale of goods and materials	4 308	2 097
Revenues from sale of products and services	173 056	171 560
Lease revenues	26 596	28 060
Revenues from granted loans	2 903	2 656
Other revenues	186	384
Total revenues from sale	207 049	204 757
Sales revenues from contracts with clients	171 038	155 023

Lease revenues	For period 01.01.2018 - 31.12.2018	For period 01.01.2017 - 31.12.2017
Interest income – financial lease	21 935	22 264
Operational lease charge	4 661	5 796
Total leasing revenues	26 596	28 060

Revenues from granted loans	For period 01.01.2018 - 31.12.2018	For period 01.01.2017 - 31.12.2017
Interest income	2 903	2 656
Total revenues from granted loans	2 903	2 656

14. Other operating revenues

Other operating revenues	For period 01.01.2018 - 31.12.2018	For period 01.01.2017 - 31.12.2017
Release of impairment charges for inventories	787	221
Release of impairment charges for receivables	928	2 939
Release of provisions	2 998	2 953
Profit from sale and liquidation of tangible fixed assets	238	193
Compensation and contractual penalties received	229	101
Other revenues, including:	2 578	1 041
Subsidy	1 219	-
Rental of tangible fixed assets	388	369
Disassembly of the fixed asset	681	-
Other	290	672
Total other operating revenues	7 758	7 448

The revaluation of financial assets relates mainly to changes in the estimated risk of lease receivables from one of the counterparties. The changed estimation is triggered by a significant improvement in the settlement of liabilities by this counterparty and a decrease in the balance and its coverage as well as the establishment of collateral.

The release of provisions concerns mainly a change in the projected costs of restoration regarding the obligations of the capital group resulting from the concession held.

15. Other operating costs

Other operating costs	For period 01.01.2018 - 31.12.2018	For period 01.01.2017 - 31.12.2017
Provision for future costs	-	(277)
Impairment charges for inventories	(239)	(199)
Impairment charges for receivables	(1 701)	(1 045)
Donations	(14)	(23)
Membership fees	(27)	(21)
Penalties and compensation paid	(48)	(117)
Other costs	(285)	(403)
Other total operating costs	(2 314)	(2 085)

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

16. Financial revenues and costs

Financial revenues and costs	For period 01.01.2018 - 31.12.2018	For period 01.01.2017 - 31.12.2017
Dividends	-	-
Interest on bank accounts	178	327
Exchange differences	-	14
Revenues from interest on receivables other than receivables under lease agreements	493	446
Profit on disposal of financial assets	-	213
Other financial revenues, including:	3 413	592
<i>interest on lease</i>	171	-
<i>profit on loss of control in a jointly controlled company</i>	2 955	-
<i>other financial income</i>	287	393
<i>discount</i>	-	199
Total financial revenues	4 084	1 592
Discount of actuarial provisions	(217)	(225)
Costs of interest on financial liabilities measured at amortised cost	(20 339)	(20 607)
Costs of interest on bonds	-	-
Exchange differences	(129)	-
Impairment on financial assets	-	-
Other financial costs	(907)	(1 350)
Total financial costs	(21 592)	(22 182)
Net financial income / (expense) recognized in profit or loss of the current period	(17 508)	(20 590)

Interest income from assets and liabilities measured with effective interest rate method	For period 01.01.2018 - 31.12.2018	For period 01.01.2017 - 31.12.2017
Revenues from interest on receivables other than receivables under lease agreements	493	446
Interest income on bank accounts	178	327
Interest income – financial lease	21 935	22 264
Interest income – granted loans	2 903	2 656
Costs of interest on financial liabilities measured at amortised cost	(20 339)	(20 607)
	5 170	5 086

17. Costs of employee benefits

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	For period 01.01.2018 - 31.12.2018	For period 01.01.2017 - 31.12.2017
Remuneration and employee benefits		
Remuneration	(16 182)	(24 690)
Social insurance (defined benefits plans)	(3 249)	(3 670)
Retirement severance pays (defined benefits plan)	247	139
Net costs of jubilee benefits	(320)	850
Other employee benefits	(1 241)	(1 229)
Total remuneration and employee benefits	(20 745)	(28 600)

18. Income tax

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Income tax recognized in profit or loss of current period		
Income tax (current part)		
Income tax for reporting period	(2 164)	(3 097)
Income tax (deferred part)		
Origination/reversal of temporary differences	201	(1 802)
Income tax	(1 963)	(4 899)

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Income tax recognised in other comprehensive income		
Actuarial profits (losses) under defined benefits plans	63	92
Income tax recognised in other comprehensive income	63	92

	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Reconciliation of effective interest rate		
Net profit for reporting term	2 816	14 346
Income tax	1 963	4 899
Profit before tax	4 779	19 245
Tax based on applicable 19% tax rate	(813)	(3 657)
Tax effect of non-permanent income as per tax law	1 010	703
Tax effect of non-permanent costs as per tax law	(2 160)	(1 945)
Other (+/-)	-	-
Income tax	(1 963)	(4 899)
Effective tax rate	41%	25%

19. Tangible fixed assets

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	Land, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Gross value of tangible fixed assets						
Gross value as at 01.01.2017	70 436	176 794	43 843	1 176	6 018	298 267
Purchase	3 315	21 706	229	279	29 293	54 822
Sale	-	-	(5 746)	-	-	(5 746)
Liquidation	-	(10)	-	-	-	(10)
Settlement	-	-	-	-	(23 221)	(23 221)
Gross value as at 31.12.2017	73 751	198 490	38 326	1 455	12 090	324 112
Wartość brutto na 01.01.2018	73 751	198 490	38 326	1 455	12 090	324 112
Purchase	2 783	18 455	-	115	7 654	29 007
Sale	-	(2 343)	(319)	-	-	(2 662)
Liquidation	-	(50)	-	-	-	(50)
Settlement/change of classification	(4)	(2 030)	(91)	-	(21 372)	(23 497)
Gross value as at 31.12.2018	76 534	214 552	38 007	1 570	(1 628)	326 910
Depreciation and impairment charges						
Depreciation and impairment charges as at 01.01.2017	7 367	34 597	15 215	634	-	57 813
Depreciation	2 914	11 034	4 344	185	-	18 477
Sale	-	-	(3 815)	-	-	(3 815)
Liquidation	-	(8)	-	-	-	(8)
Depreciation and impairment charges as at 31.12.2017	10 281	45 623	15 744	819	-	72 467
Depreciation and impairment charges as at 01.01.2018	10 281	45 623	15 744	819	-	72 467
Depreciation	3 050	11 977	3 185	258	-	18 470
Sale	-	(2 116)	(254)	-	-	(2 370)
Liquidation	-	(50)	-	-	-	(50)
Settlement/change of classification	-	(141)	(3)	-	-	(144)
Depreciation and impairment charges as at 31.12.2018	13 331	55 293	18 672	1 077	-	88 373
Wartość netto						
01.01.2017	63 069	142 197	28 628	542	6 018	240 454
31.12.2017	63 470	152 867	22 582	636	12 090	251 643
01.01.2018	63 470	152 867	22 582	636	12 090	251 643
31.12.2018	63 203	159 259	19 335	493	(1 628)	238 537

Impairment charges and subsequent reversal

As at 31 December 2018 and 31 December 2017 the Capital Group did not create any impairment charges. At the end of current period, the Capital Group conducted impairment testing for the energy segment following significant changes in market prices for electric energy.

Projected future cash flows were estimated based on detailed financial projections for 2019-2029.

Terminal value was estimated through extrapolation of projected free cash flows outside the plan using each time adequate growth rate. Weighted average cost of capital of 7.31% was applied. The value in use of the segment was PLN 314 203k at the testing date, i.e. 31 December 2018.

The estimated use value of the operating assets of the segment is largely based on the assumptions of the electricity wholesale prices increasing by 31% versus the actual 2018 prices and the single CO2 emission allowance at the level of EUR 23/MG at a rate of PLN 4.35/EUR1 and a further increase of 2.5% a year in the projected period. A change of the above said parameters by 1% has the following impact on the estimated use value:

- electricity price in 2019 – 6.7%,
- price for CO2 emission allowance- 3.4%.

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

Leased tangible fixed assets

Under financial lease the Capital Group occupies property in Poznań at ul. Bolesława Krzywoustego 7. The balance sheet value of the property as at 31 December 2018 is PLN 3,803k.

Collaterals

External financing granted to the Capital Group presented in Note 30 is secured with tangible fixed assets.

Key investments conducted over the reporting period:

- construction of flue gas desulphurization and denitrification facility of PLN 2 841k, including costs of external financing of PLN 225k (interest and fees),
- reconstruction of a water heater OP-140 no. 6 in the amount of PLN 1 137k,
- modernization of water preparation station worth PLN 943k,
- innovative technological installation ensuring optimal cooperation of a combined heat and power plant with a highly efficient heat accumulation system supported by intelligent decision making system on the sale market of electricity and heat worth PLN 813k,

On 30 September 2014 Elektrociepłownia BĘDZIN Sp. z o. o. signed a contract on "Construction of flue gas desulphurization and denitrification facility in Elektrociepłownia BĘDZIN Sp. z o.o." with SBB Energy S.A. The contract amounted to net PLN 129 975k and it ended in March 2018.

The objective of the project was to adjust boilers OP-140 no. 6, OP-140 no. 7, WP-70 no. 5 installed in Elektrociepłownia BĘDZIN Sp. z o.o. to the emission standards for combustion plant (SO₂, NO_x gas and dust emission) applicable from 1 January 2016 as per the Directive 2010/75/ EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control).

As regards reduction of SO₂ emission, a highly efficient flue-gas desulfurization facility (SO₂ extraction above 98%) is to be constructed characterized by high reliability and requiring minimum capex to operate and maintain the installation. The circulating fluidized bed technology also provides for 99% reduction of HCL and SO₃. The bag filter system in the desulfurization facility will enable significant reduction of dust emission.

As regards reduction of NO_x, a flue gas denitrification facility is to be constructed composed of: primary method enabling reduction of NO_x emission in the boiler furnace chamber and secondary method, the so-called selective non-catalytic reduction (SNCR). Thanks to the technology, the target emission reduction will be: SO₂ - 130 mg/Nm³; NO_x - 180 mg/Nm³; dust - 15mg/Nm³

	Year ending on 31 December 2018	Year ending on 31 December 2017
Land in perpetual usufruct		
Land in perpetual usufruct recognised in fixed assets as land	102	102
Land in perpetual usufruct recognised OBS	1 476	1 476
Total	1 578	1 578

20. Intangible assets

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Gross value of intangibles	Patents, licences, software	Other intangible assets	Total
Gross value as at 01.01.2017	944	5 512	6 456
Acquisition	87	-	87
Gross value as at 31.12.2017	1 031	5 512	6 543
Gross value as at 01.01.2018	1 031	5 512	6 543
Acquisition	97	-	97
Reclassification	(21)	-	(21)
Sale	(220)	-	(220)
Gross value as at 31.12.2018	887	5 512	6 399

Amortisation and impairment charges	Patents, licences, software	Other intangible assets	Total
Amortisation and impairment charges as at 01.01.2017	508	964	1 472
Amortisation	333	551	884
Amortisation and impairment charges as at 31.12.2017	841	1 515	2 356
Amortisation and impairment charges as at 01.01.2018	841	1 515	2 356
Amortisation	190	551	741
Sale	(220)	-	(220)
Reclassification	(8)	-	(8)
Amortisation and impairment charges as at 31.12.2018	803	2 066	2 869

Net value			
01.01.2017	436	4 548	4 984
31.12.2017	190	3 997	4 187
01.01.2018	190	3 997	4 187
31.12.2018	84	3 446	3 530

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

Amortization of intangible assets is recognized together with depreciation of property, plant and equipment under "Amortisation" in the consolidated statement of profit or loss and other comprehensive income.

Impairment charges and reversal

No impairment charges have been made by the Capital Group.

Intangible assets of indefinite useful life

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

Collaterals

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

21. Deferred tax assets and provision for deferred income tax

Deferred tax assets and provision for deferred income tax	Assets		Liabilities		Net value	
	As at	As at	As at	As at	As at	As at
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Tangible fixed assets	1 141	1 021	(13 902)	(13 552)	(12 761)	(12 531)
Intangible assets	-	-	(655)	(759)	(655)	(759)
Investments measured by equity method	-	-	96	-	96	-
Receivables under lease agreements	759	1 198	(402)	(246)	357	952
Granted loans	38	33	(534)	(477)	(496)	(444)
Other investments	-	-	-	-	-	-
Trade debtors and other debtors	-	-	(19)	(20)	(19)	(20)
Inventories	28	177	(441)	(415)	(413)	(238)
Cash and cash equivalents	-	-	-	-	-	-
Prepayments	-	-	-	-	-	-
Assets held for sale	-	-	-	-	-	-
Liabilities under loans, credits and other debt securities	523	597	-	-	523	597
Employee benefits liabilities	1 741	2 657	-	-	1 741	2 657
Trade liabilities and other liabilities	71	235	-	-	71	235
Provisions	2 304	912	-	-	2 304	912
Tax losses brought forward to future reporting periods	1 557	1 114	-	-	1 557	1 114
Deferred tax assets and provision	8 162	7 944	(15 857)	(15 469)	(7 695)	(7 525)
Compensation	(7 779)	(6 973)	7 779	6 973	-	-
Deferred tax assets and provision for deferred income tax recognized in financial statements	383	971	(8 078)	(8 496)	(7 695)	(7 525)

Change of temporary differences in the reporting period

Change of temporary differences in the reporting period	As at 01.01.2017	Change of temporary differences recognized as profit or loss in current period	Change of temporary differences recognized in other comprehensive income	Change of temporary differences related to purchase of business units	As at 31.12.2017	Change of temporary differences recognized as profit or loss in current period	Change of temporary differences recognized in other comprehensive income	Change of temporary differences related to purchase of business units	As at 31.12.2018
Tangible fixed assets	(11 440)	(1 091)	-	-	(12 531)	(230)	-	-	(12 761)
Intangible assets	(864)	105	-	-	(759)	104	-	-	(655)
Investments measured by equity method	-	-	-	-	-	96	-	-	96
Receivables under lease agreements	1 651	(699)	-	-	952	(595)	-	-	357
Granted loans	(398)	(48)	-	-	(444)	(52)	-	-	(496)
Trade debtors and other debtors	(20)	-	-	-	(20)	1	-	-	(19)
Inventories	(238)	(2)	-	-	(238)	(175)	-	-	(413)
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Liabilities under loans, credits and other debt securities	477	120	-	-	597	(74)	-	-	523
Employee benefits liabilities	2 383	182	92	-	2 657	(916)	-	-	1 741
Trade liabilities and other liabilities	354	(119)	-	-	235	(164)	-	-	71
Provisions	1 412	(500)	-	-	912	1 392	-	-	2 304
Tax losses brought forward to future reporting period	1 114	-	-	-	1 114	443	-	-	1 557
	(5 565)	(2 052)	92	-	(7 525)	(170)	-	-	(7 695)

22. Receivables arising from lease agreements

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

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

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

Receivables from leasing agreements	31.12.2018	31.12.2017
Long-term receivables from leasing agreements	194 252	223 622
Short-term receivables from leasing agreements	94 978	113 412
	<u>289 230</u>	<u>337 034</u>
Net receivables from leasing agreements	31.12.2018	31.12.2017
Gross receivables from leasing agreements	290 220	338 120
Impairment charge on receivables from leasing agreements	(990)	(1 086)
	<u>289 230</u>	<u>337 034</u>
Gross receivables from leasing agreements	31.12.2018	31.12.2017
With no impairment identified	289 230	337 034
With impairment identified, including:	990	1 086
- portfolio measured individually	990	1 086
	<u>290 220</u>	<u>338 120</u>
Impairment charge on receivables from leasing agreements	31.12.2018	31.12.2017
portfolio measured individually	(990)	(1 086)
portfolio measured collectively	-	-
	<u>(990)</u>	<u>(1 086)</u>
Mix of gross receivables from leasing agreements, by currencies (converted to PLN)	31.12.2018	31.12.2017
PLN	290 220	338 120
	<u>290 220</u>	<u>338 120</u>

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Mix of gross receivables from leasing agreements, by maturity	31.12.2018	31.12.2017
Due, overdue	14 645	7 548
up to 1 month	5 818	7 379
between 1 and 3 months	29 140	22 261
between 3 and 6 months	17 191	22 760
between 6 and 12 months	42 186	74 598
between 1 and 3 years	108 714	153 428
between 3 and 5 years	49 572	2 891
above 5 years	22 954	47 255
	290 220	338 120

Gross receivables from leasing agreements including unrealized revenues from leasing instalments	31.12.2018	31.12.2017
Gross receivables from leasing agreements	290 220	338 120
Unrealized financial revenues	40 605	51 879
	330 825	389 999

Past due receivables from leasing agreements	31.12.2018	31.12.2017
1-30 days	3 819	4 350
31-90 days	5 432	-
above 90 days	5 394	3 198
	14 645	7 548

Receivables as at 31.12.2018 -for contractors with a total overdue of over PLN 500,000						
Contractor	leasing undue	leasing due	factoring	other	total	Ddebt security
Contractor A	24 432 316,33	1 140 025,98		2 386 909,01	27 959 251,32	ownership of leased items, transfer of receivables from contracts, declaration of submission to execution, blank promissory note
Contractor B	16 191 960,41	2 122 252,58			18 314 212,99	ownership of leased items, declaration of submission to execution, blank promissory note
Contractor C	5 452 066,18	1 572 016,37	287 341,19	7 957 684,49	15 269 108,23	ownership of leased items, registered pledge on a pellet production line worth PLN 12m, joint contractual mortgage on real estate worth PLN 7,66m
Contractor D	10 310 624,64	1 216 987,89		1 679 090,22	13 206 702,75	ownership of leased assets, transfer of ownership of movables worth PLN 1.8 m
Contractor E	5 081 690,73	2 127 577,89		566 120,13	7 775 388,75	ownership of the leased items, assignment of receivables from the settlement re. the payment of compensation in the amount of PLN 10m
Contractor F	1 358 913,95	1 685 332,24			3 044 246,19	ownership of the leased items, assignment of receivables from the settlement re. the payment of compensation in the amount of PLN 10m
Contractor G	10 119 259,49	2 092 745,81		2 843 427,76	15 055 433,06	ownership of leased items, transfer of receivables from contracts
Contractor H	5 488 681,63	555 668,79		986 051,25	7 030 401,67	ownership of leased items, declaration of submission to execution, blank promissory note
TOTAL	78 435 513,36	12 512 607,55	287 341,19	16 419 282,86	107 654 744,96	

The Group has exposure to contractors with significant overdues as of 31 December 2018 in the total amount of PLN 107,655k, including overdue receivables of PLN 12,513k. The Group's Management Board determined the present value of leased assets under the conditions of forced execution of the receivables and determined the quality and value of the security established by the contractors. Additionally, after the balance sheet date and in case of selected exposures, the Management Board had extra security established on the debtors' or suretyship providers' property or took up measures with respect to restructuring debt repayment schedules. Based on an analysis performed, in case of the contractors failing to meet the contractual monetary obligations, the Group will obtain funds which will outweigh the carrying value of trade receivables from contracts.

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Gross receivables from leasing agreements including unrealized revenues from leasing instalments, by maturities	31.12.2018	31.12.2017
up to 1 year	123 022	152 492
between 1 and 5 years	182 328	185 995
above 5 years	25 475	51 512
	330 825	389 999

Change in balance of impairment charges on leasing agreements	31.12.2018	31.12.2017
Opening balance	(1 086)	(3 365)
Increases	(1 701)	(850)
Utilisation	869	-
Cancellations	928	3 129
Closing balance	(990)	(1 086)

As at 31 December 2018, the total amount of receivables arising from lease agreements secured the financial liabilities. The exposure to credit risk, interest rate risk, currency risk and liquidity risk is presented in note 35.

23. Provided loans

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

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

The total value of valid factoring limits was PLN 36.2m as at 31 December 2018. The average term of invoice funding is 48 days. The factoring transactions are based on variable interest rates and as a standard, the recourse factoring agreements are secured with assignment of receivables from contracts and blank bill of exchange.

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

Receivables from loans	31.12.2018	31.12.2017
Long-term receivables from loans	11 175	10 669
- including related entities	1 645	-
Short-term receivables from loans	37 936	27 774
- including related entities	2 349	-
	49 111	38 443

Net receivables from loans	31.12.2018	31.12.2017
Gross receivables from loans	49 111	38 982
Impairment charge on receivables from loans	-	(539)
	49 111	38 443

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Gross receivables from loans	31.12.2018	31.12.2017
With no impairment identified	49 111	38 443
With impairment identified, including:	-	539
- portfolio measured individually	-	539
	49 111	38 982

Impairment charge on receivables from loans	31.12.2018	31.12.2017
Portfolio measured individually	-	(539)
Portfolio measured collectively	-	-
	-	(539)

Mix of gross receivables from loans, by maturity	31.12.2018	31.12.2017
up to 1 month	176	168
between 1 and 3 months	28 204	17 712
between 3 and 6 months	8 658	9 301
between 6 and 12 months	897	1 132
between 1 and 3 years	4 779	3 459
between 3 and 5 years	6 397	1 771
above 5 years	-	5 439
	49 111	38 982

Gross receivables from loans including unrealized revenues from leasing instalments	31.12.2018	31.12.2017
Gross receivables from loans	54 912	38 982
Unrealized financial revenues	1 405	1 382
	56 317	40 364

Past due receivables from loans	31.12.2018	31.12.2017
above 90 days	-	1 214
	-	1 214

Gross receivables from loans including unrealized revenues from leasing instalments, by maturities	31.12.2018	31.12.2017
up to 1 year	44 148	34 971
between 1 and 5 years	12 169	6 540
above 5 years	-	5 534
	56 317	47 045

Change in balance of impairment charges on loans	31.12.2018	31.12.2017
Opening balance	(539)	(552)
Utilisation	139	-
Increases	-	-
Releases	400	13
Reclassification	-	-
Closing balance	-	(539)

As at 31 December 2018, the total amount of receivables arising from loan agreements secured the financial liabilities.

The exposure to credit risk, interest rate risk, currency risk and liquidity risk is presented in note 35.2.

24. Trade receivables and other receivables

Trade receivables and other receivables	31.1.2018	31.12.2017
Trade receivables from non-connected entities	20 568	22 086
Receivables from tax, subsidy, customs, social security and other benefits	492	1 190
Other receivables	2 902	1 621
	23 962	24 897
- long-term	1 500	1 500
- short-term	22 462	23 397

As at 31 December 2018, trade receivables from non-connected entities were represented mainly by trade receivables arising from the sale of electric power and heat. Receivables arising from taxes, customs and insurance were represented mostly by VAT.

The Capital Group's exposure to credit risk and FX risk as well as related impairment charges are presented in note 35.

25. Inventories

As at 31 December 2018, the impairment charge on inventories set to revalue the inventories to reflect the feasible net sale price, was PLN 1 774k (as at 31 December 2017, it was PLN 1 755k). In the profit and loss account, in the other operating revenues and other operating expenses, the value of impairment charge on inventory was presented at PLN 547k (creation) in 2018 and PLN (-) 22k (release) in 2017.

As at 31 December 2018, the inventory represented security for financial liabilities.

Inventories	31.12.2018	31.12.2017
Materials	7 584	4 882
Ready made products	-	456
Energy certificates	2 195	1 256
CO2 emission allowances	19 484	13 952
	29 263	20 546

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CO2 emission rights	31.12.2018	31.12.2017
As at 01.01.2018	13 952	15 780
Purchase	14 773	9 895
Received (free of charge allocation)	3 643	2 728
Cancellation (as per annual emission)	(12 884)	(14 451)
As at 31.12.2018	19 484	13 952

Energy certificates	31.12.2018	31.12.2017
As at 01.01.2018	1 256	1 241
Formation	1 881	2 708
Sale	(1 724)	(2 759)
Cancellation	(5)	-
Valuation	787	66
As at 31.12.2018	2 195	1 256

26. Cash

Cash and cash equivalents	31.12.2018	31.12.2017
Cash at hand	5	8
Cash in current accounts	19 371	23 475
Short-term deposits and other cash	5 266	6 745
Total cash and cash equivalents	24 642	30 228
Cash and cash equivalents recognized in cash flows statement	24 642	30 228
Restricted cash*	9 381	7 690

*Cash with limited disposability includes:
- deposits with Brokerage House – PLN 3 259k,
- short-term bills of exchange - PLN 5 266k.
- VAT account - PLN 856k

27. Prepayments and accruals

	31.12.2018	31.12.2017
Prepayments and accruals related to insurance of leased assets	30	31
Insurance other	-	21
Other prepayments and accruals	48	25
	78	77

28. Equity

Equity	31.12.2018	31.12.2017
Opening number of shares	3 149 200	3 149 200
Closing number of shares (fully paid up)	3 149 200	3 149 200

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Equity as at	31.12.2018	Number of shares (in items)	Nominal value per share (in PLN)	Balance sheet value (in PLN k)
A-series shares		3 149 200	5	15 746
Total number of shares		3 149 200		
Nominal value of share capital				15 746
Share capital resulting from hyperinflation revaluation				21 982
Total share capital				37 728
Supplementary capital				67 613
Reserve capital				44 843
Total other capital				112 456
Defined benefits plan revaluation reserve				(393)
Retained profits				22 451
Total equity				172 242

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

As at 31 December 2018, the share capital of the parent entity was PLN 37,728k. In the financial statements, the Capital Group presents the share capital as the nominal value of issued and acquired shares and the revaluation of PLN 21,982k resulting from the application of IAS 29.

All of the parent entity's shares are covered by A series which does not provide for any kind of privilege as regards the voting rights and dividend.
The parent entity and the subsidiaries do not hold any shares acquired in the parent entity.

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

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

Ownership structure of the share capital of the parent entity as at 31 December 2018..

Shareholder	Number of shares	Nominal value of shares	Shareholding (%)
Krzysztof Kwiatkowski	1 033 499	5 167	32.82%
AgioFunds TFI SA	334 747	1 674	10.63%
Bank Gospodarstwa Krajowego	311 355	1 557	9.89%
Waldemar Organista	173 146	866	5.50%
Familiar S.A. SICAV - SIR	271 526	1 358	8.62%
State Treasury	157 466	787	5.00%
Other shareholders	867 461	4 337	27.55%
	3 149 200	15 746	100.00%

Dividends

In 2017 and in 2018, the parent entity did not pay any dividend.

Supplementary capital

Pursuant to §396 of the Code of Commercial Companies, the parent entity is obligated to keep the retained profits (the supplementary capital) in the amount representing up to 1/3 of the share capital and to allocate it covering the potential financial losses only. The entity must allocate to that purpose minimum 8% of the current profit until the required equivalent of 1/3 of the share capital is gathered. As at 31 December 2018, the capital was PLN 67.613k.

Other reserve capital

Other reserve capital are represented mainly by amounts allocated by force of decision of the Annual General Meeting in the process of distributing the financial profit. In particular, the Group's reserve capital comprises the reserve capital of the parent entity and the subsidiary Elektrociepłownia Będzin Sp. z o. o.

Description / Entity	Dominant entity	Elektrociepłownia Będzin Sp. z o. o.
opening balance	16 967	-
revaluation	26 731	-
transfer from the supplementary capita	1 041	-
profit from 2009	2 575	-
profit from 2010	6 607	-
profit from 2011	8 789	-
profit from 2012	10 256	-
loss from 2013	(3 619)	-
profit of 2014	6 261	-
profit from 2015	148	13 396
profit from 2016	-	17 159
IFRS adjustments	(60 347)	(973)
Total	15 409	29 582
consolidation adjustments	(148)	-
Total		44 843

Defined benefits revaluation reserve

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

Retained profits

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

29. Profit per share

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

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

	31.12.2018	31.12.2017
Opening number of shares	3 149 200	3 149 200
Closing number of shares	3 149 200	3 149 200
Average weighted number of issued shares	3 149 200	3 149 200

	31.12.2018	31.12.2017
Net profit distributed amongst shareholders of dominant entity (in PLN k)	2 816	14 346
Number of shares	3 149 200	3 149 200
Main profit per share (PLN/share)	0,9	4,6

30. Liabilities from loans, credits and other debt instruments

This note presents information about the Capital Group's liabilities arising from loans, credits and other debt instruments measured at amortised cost. Information about the Capital Group's exposure to credit risk, interest rate risk and liquidity risk is presented in note 35.2.

Liabilities from loans, credits and other debt instruments	31.12.2018	31.12.2017
Long-term liabilities		
Secured loans and credits	211 863	253 741
Liabilities due from IRS	-	152
Liabilities from debt securities	-	29 879
Financial lease liabilities	4 837	5 327
	216 700	289 099
Short-term liabilities		
Secured loans and credits	126 942	163 117
Liabilities from debt securities	37 346	5 471
Financial lease liabilities	3 544	3 942
	167 832	172 530

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

As at 31 December 2018, secured loans and credits were represented by secured loans and credits granted by financial institutions, said facilities denominated in PLN, bearing WIBOR-based variable interest rate and margin of the financing institution. The average nominal value of said interest rate was 4.16% as at 31 December 2018.

Long-term liabilities arising from debt securities, in the amount of PLN 29,910k result from the bonds issue aiming to finance the purchase of shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. The bonds issue took place on 13 April 2015 and its total nominal value was PLN 30,000k. The bonds are 3Y instruments bearing 6M WIBOR reference rate plus margin of 4.5 p.p.. At the end of 2015, the Capital Group purchased its own bonds worth PLN 500k for the purpose of their redemption.

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

Short-term liabilities arising from debt securities result from the issue of non-secured bills of exchange to be redeemed by 30 June 2019, said bills of exchange acquired by an entity connected with the Capital Group. The average nominal value of interest rate on the bills of exchange was 5.0% as at 31 December 2018.

Finance lease liabilities stem mainly from eight financial lease agreements secured with the leased assets, said agreements signed with SGB Leasing Sp. z o.o., with the final repayment dates scheduled from 2019 to 2025. As at 31 December 2018, the average nominal value of interest rate on the said agreements was 5.0%.

The leased assets handed over for use, the receivables from said agreements, the receivables from loan agreements, trade receivables and tangible fixed assets represent collateral for the credit liabilities. The exposure to credit risk, interest rate risk, FX risk and liquidity risk is presented in note 35.2.

As at 31 December 2018, the Capital Group has available overdraft limits of PLN 5 000k and can issue bills of exchange up to PLN 15 000k under an agreement made with the bank.

31. Employee benefits liabilities

Change in current value of liabilities under defined benefits	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Opening balance of liabilities under defined benefits	4 580	4 165
Increases as part of acquisition of business entities	-	-
Current employment cost	118	125
Liabilities taken over as part of the acquisition of business entities	-	-
Interest cost	123	109
Defined benefits plan revaluation reserve recognized in other comprehensive income	331	483
Future employment cost	-	-
Restrictions/ liquidation of plan	-	(4)
Benefits paid	(568)	(298)
Closing balance of liabilities under defined benefits	4 584	4 580

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Changes in the present value of liabilities due to other employee benefits	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Opening balance of liabilities due to other employee benefits	9 479	8 424
Current employment cost	3 578	7 402
Interest cost	94	116
Defined benefits plan revaluation reserve recognized in profit or loss from current period	141	(1 336)
Benefits paid	(4 783)	(5 127)
Released	(3 871)	-
Closing balance of liabilities due to other employee benefits	4 638	9 479

Liabilities under defined benefits include: provision for retirement severance payments, provision for disability severance payments, provisions for death-in-service severance payments, and provisions for Employee Benefit Fund charge. A legal basis for the said provisions is the Accounting Act, Article 28, Item 1, point 9, remuneration rules and the Labour Code.

Actuarial assumptions

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

	The year ending on 31 December 2018	The year ending 31 December 2017
Discount rate as at 31 December	2.9%	3.2%
Future salary increase	5.0%	5.0%

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

Change in balance of liabilities under employee benefits	Service anniversary awards	Retirement and disability severance payments	Other liabilities	Total
As at 01.01.2018	2 714	3 590	7 755	14 059
Raised	208	222	3 462	3 892
Utilised	(322)	(488)	(4 461)	(5 271)
Released	141	(44)	(3 886)	(3 789)
Revaluation of provisions recognized in other comprehensive income	-	339	(8)	331
As at 31.12.2018	2 741	3 619	2 862	9 222
-long-term provisions	2 439	2 795	388	5 622
-short-term provisions	302	824	2 474	3 600

Change in balance of liabilities under employee benefits	Service anniversary awards	Retirement and disability severance payments	Other liabilities	Total
As at 01.01.2017	4 087	2 886	5 616	12 589
Raised	1 583	209	5 956	7 748
Utilised	(1 907)	(170)	(3 348)	(5 425)
Released	(1 049)	-	(287)	(1 336)
Revaluation of provisions recognized in other comprehensive income	-	665	(182)	483
As at 31.12.2017	2 714	3 590	7 755	14 059
-long-term provisions	1 714	2 929	4 662	9 305
-short-term provisions	1 000	661	3 093	4 754

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

32. Trade liabilities and other liabilities

Trade liabilities and other liabilities	31.12.2018	31.12.2017
Other liabilities to connected entities	48	-
Trade liabilities to non-connected entities	22 082	19 678
Tax, customs and social insurance liabilities	6 519	4 036
Payroll liabilities	418	605
Deferred income	724	184
Other liabilities	11 737	12 882
Total trade liabilities and other liabilities	41 528	37 385
- long-term	501	5 597
- short-term	41 027	31 788

Other liabilities– PLN 7 029k are represented by part of purchase price for the shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A., the payment of which was deferred by 30 June 2019 in accordance with the agreement.

Exposure to liquidity risk in terms of liabilities was presented in note 35.2.

33. Provisions

Provisions	Provision for CO2 emission allowance	Other provisions	Total
Value as at 01.01.2018	12 884	5 762	18 646
Raised	46 306	505	46 811
Utilised	(12 884)	(1 128)	(14 012)
Released	-	(4 868)	(4 868)
Change of classification	-	(29)	-
Value as at 31.12.2018	46 306	242	46 548
- long-term	-	-	-
- short-term	46 306	242	46 548

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

Provision for CO₂ emission allowances

The provision is raised for liabilities arising from the emission of pollution to the atmosphere, which are measured as the product of allowances necessary for cancellation due to the effected emission and the unit cost of emission allowances held by the Group and payable as at the balance sheet date. The

unit cost of allowances necessary to cover the estimated emission is calculated using FIFO method. The Group is obliged to cancel a certain number of emission allowances by end April next year.

Other provisions

The item is represented mainly by provision for implications of liquidation of the licensed activity – liquidation of water boiler WP-120 no. 9 and no. 8. The provision is subject to revaluation as at the balance sheet date based on cost estimate prepared by a third party entity offering services in the scope of planned liquidation work. The work covered by the provision was completed. As at 31 December 2018, the provision totalled PLN 0k, while as at 31 December 2017, it was PLN 4744k.

34. Subsidies

With respect to free allocation of CO2 emission allowances, the Group recognised a subsidy amounting to PLN 3,643k which was settled through the financial result in the same year. Moreover, the Group recognised a subsidy in the amount of PLN 1,219k in the other operating revenues. The said subsidy pertains to an R&D project financed with the European Funds of Regional Development under a Regional Operational Programme for Silesian Voivodship for the years 2014-2020.

35. Equity management

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

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

Moreover, in accordance with the Code of Commercial Companies, the supplementary capital should be maintained in the amount representing up to 1/3 of the share capital. The Capital Group must allocate to that purpose minimum 8% of the current profit until the required equivalent of 1/3 of the share capital is gathered. As at 31 December 2018, the supplementary capital of the Capital Group was compliant with the foregoing requirement.

35.1 Categories of financial instruments

Financial assets	31.12.2018	31.12.2017
Loans and receivables	361 811	399 184
Cash and cash equivalents	24 642	30 228
	386 453	429 412
Recognized in financial statements as:		
Trade receivables and other receivables	23 470	23 707
Cash and cash equivalents	24 642	30 228
Granted loans	49 111	38 443
Receivables from leasing agreements	289 230	337 034
	386 453	429 412

Financial liabilities	31.12.2018	31.12.2017
Measured at amortised cost	419 541	494 978
Measured at fair value	-	-
	419 541	494 978
Recognized in financial statements as:		
Long-term liabilities under loans, credits and other debt securities	216 700	289 099
Short-term liabilities under loans, credits and other debt securities	167 832	172 530
Trade liabilities and other	35 009	33 349
	419 541	494 978

Some financial liabilities finance tangible fixed assets of the Group's operating companies.

35.2 Financial risk management

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

Credit risk

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

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

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

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

- Periodical analysis of customer's business and financial standing performed based on financial documents in the form of balance sheet, profit and loss account or F-01 spreadsheet along with information about past due liabilities and receivables (every quarter, by 25th day of a month following the last month of a quarter),
- Annual review of customer's financial standing performed based on annual, final financial documents in the form of balance sheet, profit and loss account, together with opinion and report of a chartered auditor if the company's statements are audited, as well as, information about past due liabilities and receivables (by 31st of May each year for the previous fiscal year, at the latest),
- At the request of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. customers must provide 5-year financial projections, information about raised financial liabilities (loans, leasing, etc.), opinion of a bank managing the customer's current account as well as confirmation of clear track records from ZUS (Social Insurance Office) and Tax Office.

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

The impairment charge amount is set individually for each customer. Cash flows measured to estimate the impairment are calculated based on the following:

- anticipated inflow of funds from the customer,
- likelihood of debt recovery,
- value of collateral in place.

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

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

	31.12.2018	31.12.2017
Loans and receivables, including:	386 453	429 412
<i>leasing agreements</i>	289 230	337 034
<i>granted loans</i>	49 111	38 443
<i>trade receivables and other</i>	23 470	23 707
<i>cash and cash equivalents</i>	24 642	30 228
	<u>386 453</u>	<u>429 412</u>

Establishment of collateral for the benefit of the Capital Group

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

Concentration of credit risk triggered by leasing agreements, by geographical location

	31.12.2018	31.12.2017
Poland	289 230	337 034
	<u>289 230</u>	<u>337 034</u>

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

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	31.12.2018	31.12.2017
Rail transport	103 648	169 240
Road transport	47 903	60 821
Energy sector	76 863	24 647
Other	60 816	82 326
	<u>289 230</u>	<u>337 034</u>

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

	31.12.2018	31.12.2017
Customer A	24 432	54 559
Customer B	23 858	27 979
Customer C	21 084	24 543
Customer D	16 192	23 214
Customer E	15 291	22 365
Other	188 373	184 374
	<u>289 230</u>	<u>337 034</u>

Quality of leasing agreements portfolios

Gross value	31.12.2018	31.12.2017
Non- past due	275 575	330 572
Past due	14 645	7 548
	<u>290 220</u>	<u>338 120</u>

Impairment charges	31.12.2018	31.12.2017
Past due	(990)	(1 086)
	<u>(990)</u>	<u>(1 086)</u>

Net value	31.12.2018	31.12.2017
Non- past due	275 575	330 572
Past due	13 655	6 462
	<u>289 230</u>	<u>337 034</u>

As at 31 December 2018, the Group identified aggravated credit risk for certain customers – see note 22.

Age structure of trade receivables

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Gross value	31.12.2018	31.12.2017
Non- past due	19 789	18 293
Past due from 1 to 30 days	795	3 799
Past due from 31 to 60 days	3	846
Past due from 61 to 180 days	689	-
Past due from 181 days to 1 year	-	102
Past due above 1 year	128	124
	21 404	23 164

Impairment charges	31.12.2018	31.12.2017
Non- past due	(19)	(2)
Past due from 1 to 30 days	-	(4)
Past due from 31 to 60 days	-	(846)
Past due from 61 to 180 days	(689)	-
Past due from 181 days to 1 year	-	(102)
Past due above 1 year	(128)	(124)
	(836)	(1 078)

Net value	31.12.2018	31.12.2017
Non- past due	19 770	18 291
Past due from 1 to 30 days	795	3 795
Past due from 31 to 60 days	3	-
Past due from 61 to 180 days	-	-
Past due from 181 days to 1 year	-	-
Past due above 1 year	-	-
	20 568	22 086

Change in the balance of impairment charges on loans and receivables	31.12.2018	31.12.2017
Opening balance	(1 078)	(147)
Impairment charge recognized in reporting term	(748)	(931)
Closing balance	(1 826)	(1 078)

Liquidity risk

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

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

In case of delays in the repayment of receivables under leasing agreements, the Capital Group has overdraft limits available. As at 31 December 2018, the balance of undrawn overdraft limits was PLN 5,000k. As at 31 December 2018, refinancing was sought for leasing receivables of PLN 7,347k.

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	Current value	Total cash flows from agreement	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	from 1 to 5 years	Above 5 years
As at 31.12.2018							
Loans and receivables, including:	388 869	422 838	56 715	74 236	77 770	189 390	24 727
<i>leasing agreements</i>	289 230	322 955	6 988	45 960	68 059	177 221	24 727
<i>granted loans</i>	49 111	50 371	215	28 276	9 711	12 169	-
<i>trade receivables and other cash and cash equivalents</i>	25 876	24 870	24 870	-	-	-	-
<i>cash and cash equivalents</i>	24 642	24 642	24 642	-	-	-	-
Other financial liabilities, including:	(476 403)	(485 159)	(47 546)	(15 370)	(189 514)	(200 007)	(32 722)
<i>liabilities under loans and credits</i>	(384 532)	(392 985)	(18 084)	(15 370)	(127 302)	(199 507)	(32 722)
<i>other liabilities and short-term provisions</i>	(91 871)	(92 174)	(29 462)	-	(62 212)	(500)	-
	(87 544)	(62 321)	9 169	58 866	(111 744)	(10 617)	(7 995)

	Current value	Total cash flows from agreement	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	from 1 to 5 years	Above 5 years
As at 31.12.2017							
Loans and receivables, including:	429 412	484 378	61 492	52 079	100 847	212 913	57 047
<i>leasing agreements</i>	337 034	389 999	9 088	32 989	90 035	206 374	51 513
<i>granted loans</i>	38 443	40 364	217	17 262	10 812	6 539	5 534
<i>other receivables</i>	23 707	23 787	21 959	1 828	-	-	-
<i>cash and cash equivalents</i>	30 228	30 228	30 228	-	-	-	-
Other financial liabilities, including:	(507 862)	(544 740)	(49 870)	(25 364)	(154 272)	(245 387)	(69 847)
<i>liabilities under loans and credits</i>	(461 629)	(498 246)	(34 374)	(25 149)	(129 081)	(239 795)	(69 847)
<i>other liabilities and short-term provisions</i>	(46 233)	(46 494)	(15 496)	(215)	(25 191)	(5 592)	-
	(78 450)	(60 362)	11 622	26 715	(53 425)	(32 474)	(12 800)

Cash flows from the agreement were determined based on interest rates applicable as at 31 December 2018.

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

In the cash flows, the Capital Group did not include the cash flows from agreements on the lease of tangible fixed assets which were financed with loans. The current value of tangible fixed assets leased out in the financial sector totals PLN 19,132k as at 31 December 2018 and it generates the annual cash flows of PLN 13,681k, while in the power sector it totals PLN 3,408k and it generates the annual cash flows of PLN 559k. The identified liquidity issue was referred to in note 7.4.

Apart from the acquisition of CO2 emission allowances the Group is not exposed to FX risk from unexecuted purchase and sale transactions in various currencies as the transactions pertaining to the Group's business operations are executed on the domestic market and in the domestic currency.

No FX hedging transactions were executed in the reporting period.

Interest rate risk

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

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

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

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

Structure of interest bearing financial instruments

	31.12.2018	31.12.2017
Instruments based on variable interest rate		
Loans and receivables, including:	362 983	405 705
<i>leasing agreements</i>	289 230	337 034
<i>granted loans</i>	49 111	38 443
<i>cash and cash equivalents</i>	24 642	30 228
Other financial liabilities, including:	(332 057)	(409 031)
<i>liabilities under loans and credits</i>	(332 057)	(409 031)
	30 926	(3 326)
 Instruments based on fixed interest rate		
Loans and receivables, including:	23 470	23 707
<i>trade receivables and other</i>	23 470	23 707
Other financial liabilities, including:	(87 484)	(85 947)
<i>liabilities under loans and credits</i>	(52 475)	(52 598)
<i>other liabilities</i>	(35 009)	(33 349)
	(64 014)	(62 240)

Assets and liabilities based on variable interest rate

	31.12.2018	31.12.2017
Assets		
Receivables based on WIBOR	338 341	375 477
	338 341	375 477
Liabilities		
Liabilities based on WIBOR	(332 057)	(409 031)
	(332 057)	(409 031)
Gap		
Receivables (- liabilities) based on WIBOR	6 284	(33 554)
	6 284	(33 554)

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

A change of interest rate by 100 base points would translate into reduction of equity and profit before tax by PLN 309k. The below-presented analysis was made at the assumption that other variables would remain unchanged.

	Equity without profit or loss in current period	Profit or loss in current period
31.12.2018		
WIBOR (growth by 100 pb)		309
31.12.2017		
WIBOR (growth by 100 pb)		(33)

Assets and liabilities based on fixed interest rate

	31.12.2018	31.12.2017
Assets		
Receivables in PLN	23 470	23 707
	<u>23 470</u>	<u>23 707</u>
Liabilities		
Liabilities in PLN	(87 484)	(85 947)
	<u>(87 484)</u>	<u>(85 947)</u>
Gap		
Receivables (- liabilities) in PLN	(64 014)	(62 240)
	<u>(64 014)</u>	<u>(62 240)</u>

Sale prices risk

An appropriate policy, organisational structure and procedures, as well as the activities pertaining to risk management support the process of negotiating and determining prices of the Group's products at an optimum level.

The impact on electricity prices is multidimensional, with the market and regulatory factors to name but a few. The main factors influencing electricity prices at the domestic level are the following:

- costs of fuel for power generation,
- costs of the acquisition of CO2 emission allowances,
- the quantity of energy generated by renewable sources,
- investments in the upgrade of power generating units in the context of environmental protection,
- investments in new manufacturing capacity and replacing the old and used-up power generation units,
- investments in the transmission system.

Strategic costs risk

The electricity price curve will largely depend on the costs of procuring fuel for power generation. The situation in the sector and the mid-term restructuring necessity will surely translate into a change of the prices of fuels for power generation. It is not clear which direction the sector changes will be heading. In the light of the above and in view of the fuel constituting the main component of power generation costs, additional risks arise in the process of fuel supply contracting, particularly in long-term perspective.

Pursuant to the Directive 2009/29/EC of the European Parliament and of the Council of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme in the settlement period 2013-2020, new principles for free allocation of CO2 emission allowances are applied.

In the respective period the volume of free allocation of CO2 emission allowances was reduced versus 2005-2012 allowances. The number of free allowances for heat generating facilities is gradually reduced year by year up to 2020 which will be the last year with free allocations. The allocation of free allowances is not enough to settle CO2 emission, which requires that new allowances are bought on the free market. Therefore, the price of CO2 emission allowances fluctuates.

36 Fair value of financial instruments

The fair value of financial instruments for which no active market exists is determined on the basis of the relevant appraisal techniques. The Group applies professional judgment in selection of the relevant methods and assumptions.

Derivative financial instruments designated as part of hedging relationships - cash flow hedge, including:	Carrying amount		Fair value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Interest rate swaps	(297)	(180)	(297)	(180)
Total	(297)	(180)	(297)	(180)

37 Explanations to the cash flows statement

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

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Change in receivables under lease agreements		
Change in receivables under lease agreements	47 804	13 625
Adjustment of receivables from leasing agreements by non monetary transfers	24 870	(1 738)
Change in receivables under lease agreements	72 674	15 363

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Change in the balance of trade and other liabilities		
Change in trade debtors and other debtors	4 143	(1 543)
Change in the balance of investment liabilities	(4 006)	(36)
Deferred liabilities with discount effect related to purchased shares in ETF-L ENERGO- UTECH SA	-	(444)
Change in trade debtors and other debtors	137	(2 023)

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Change in trade creditors and other	935	16 804
Other changes	(16)	224
Change in trade creditors and other	919	17 028

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	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Change in provisions for employee benefits	23 065	(2 100)
Change in provisions recognized in equity from revaluation of a defined benefit plan	(331)	(483)
Other adjustments	6	153
Change in provisions and liabilities due to employee benefits	22 740	(2 430)

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Current income tax	(2 164)	(3 097)
Change in income tax receivables	(1 503)	411
Change in income tax liability	(28)	(4 748)
Income tax from the previous period	462	
The tax paid in the cash flow statement	(3 233)	(7 434)

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
impact of the change in the method of Energo-Biomass consolidation from the full method to the equity method valuation	(1 076)	-
other adjustments	-	(467)
other adjustments	(1 076)	(467)

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

On 3 June 2015, Elektrociepłownia BĘDZIN Sp. z o.o. signed annex to contract no. 99/EC/2014 made with SBB Energy S.A. on the delivery of project "Construction of flue gas desulphurisation and denitrogenation installation". The total value of the investment was estimated at PLN 130m. As at 31 December 2018, the total value of capital expenditures incurred on the above agreement amounted to PLN 130m. The investment has been completed and no additional investments are anticipated.

39 Conditional liabilities and proceedings pending before court

No court cases, either filed by or against Elektrociepłownia BĘDZIN S.A. (parent entity) are pending. No court cases, either filed by or against Elektrociepłownia BĘDZIN Sp. z o.o. (subsidiary) are pending. No court cases, either filed by or against Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech SA (subsidiary) are pending.

40 Operating lease, rent and lease agreements

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

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

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	31.12.2018	31.12.2017
up to 1 year	-	102
from 1 to 5 years	-	-
	<u>-</u>	<u>102</u>

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

	31.12.2018	31.12.2017
up to 1 year	14 497	8 082
from 1 to 5 years	8 298	14 822
above 5 years	792	932
	<u>23 587</u>	<u>23 836</u>

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

41 Transactions with connected entities

The entities are those personally affiliated through Management Board and Supervisory Board Members.

Transactions with persons holding managerial or supervisory positions

During the reporting period ending on 31 December 2018, no advances, loans, credits, guarantees or other liability-raising agreements were provided or made with persons holding managerial or supervisory positions, their spouses, or persons related to them by blood or by marriage.

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

	31.12.2018	31.12.2017
Base salary	497	470
Bonus	544	856
	<u>1 041</u>	<u>1 326</u>

Other transactions with connected entities

As at 31.12.2018	Receivables	Liabilities
MDW Glanowski	-	9 900
Autodirect S.A.	465	-
	<u>465</u>	<u>9 900</u>

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2018
(as per the IFRS of the EU, in PLN k)

For period 01.01.2018- 31.12.2018	Sales of products	Other income
Autodirect S.A.	-	19
	-	-
For period 01.01.2018- 31.12.2018	Purchased services	Other purchases
MDW Glanowski		527
	-	527

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

As at 31.12.2017	Receivables	Liabilities
MDW Glanowski	-	8 797
Autodirect SA	18	-
	18	8 797

As at 31.12.2017	Purchased services	Other purchases
Autodirect SA	-	8
MDW Glanowski		556
	-	564

Other purchases are represented by interest on loans and credits.

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

42 Events after the balance sheet date

On 10 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 10 April 2022. Further, it was arranged that the maturity dates of certain short-term liabilities will be shifted to 31 December 2018. The repayment deadlines of short-term liabilities to non-affiliated undertakings in the amount of PLN 7.0 million were extended respectively as follows: PLN 2.3 million - by 28 Feb 2020 and PLN 4.7 million - by 31 March 2020.

43 Manpower

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

	31.12.2018	31.12.2017
Production staff	90	133
Office staff	75	90
	165	223

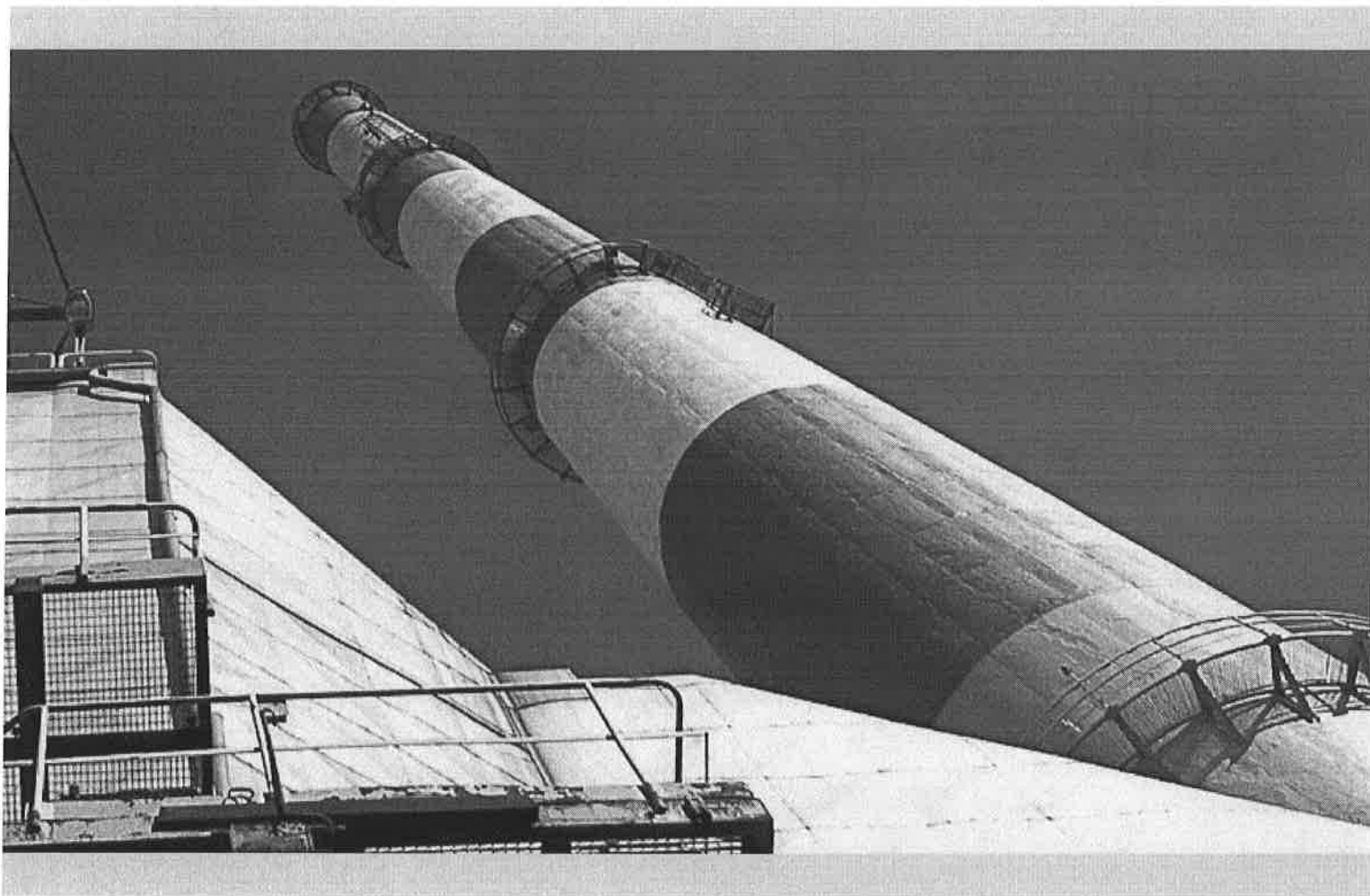
44 Remuneration of entity authorised to audit the financial statements

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 Audyty Sp. z o.o. Sp. k. with the registered office in Warsaw at ul. Inflancka 4a (National Court Register registration no. KRS 0000339379). The contractual remuneration totalled PLN 195k plus VAT.

In 2017, pursuant to agreements of 19 June 2017 on examination of consolidated and non-consolidated financial statements and on examination of semi-annual consolidated and non-consolidated financial statements, the entity authorised to examine financial statements was KPMG Audyt Sp. z o.o. Sp. k. with the registered office in Warsaw at ul. Inflancka 4a (National Court Register registration no. KRS 0000339379). The contractual remuneration totalled PLN 169k plus VAT.

45 Approval of consolidated financial statements

These consolidated financial statements were produced and approved for publication by the Management Board of the parent entity on 25 April 2019.



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

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1. Introduction

The Management Board of Elektrociepłownia Będzin S.A. hereby presents the Management Board Report on Elektrociepłownia "Będzin" S.A. Group Activity the accounting year 2018. The Report was prepared on the basis of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2018.757, standardised text).

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

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

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

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

The subsidiary is ENERGO-BIOMASA Sp. z o.o. with the registered office in Suliszewo 97, 78-500 Drawsko Pomorskie, where the subsidiary Energetyczne Towarzystwo Finansowo Leasingowe Energo-Utech S.A. holds 19.99% of all shares at the end of 2018. The change in relation to the previous reporting period took place as a result of the increase in the company's capital and the takeover of new shares by the second partner on 6 September 2018.

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

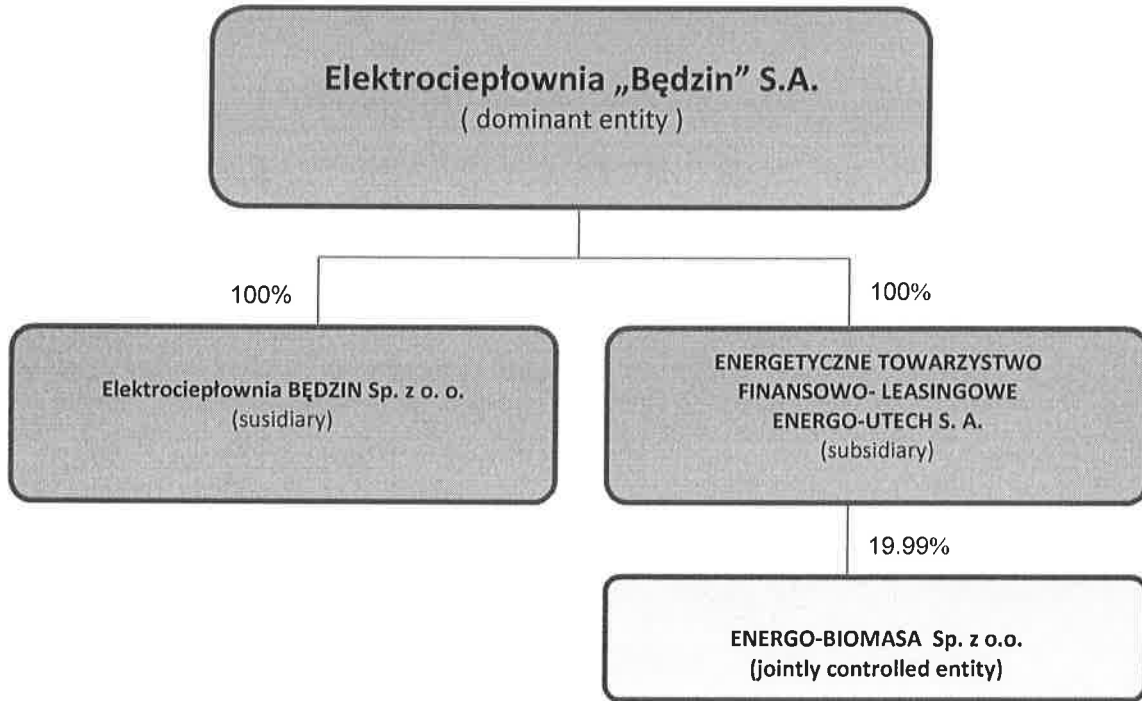
The core business of Elektrociepłownia "Będzin" S.A. Group includes:

- Generation and delivery of steam, hot water and air for air-conditioning systems,
- Generation of electricity,
- Financial lease,
- Other financial services.

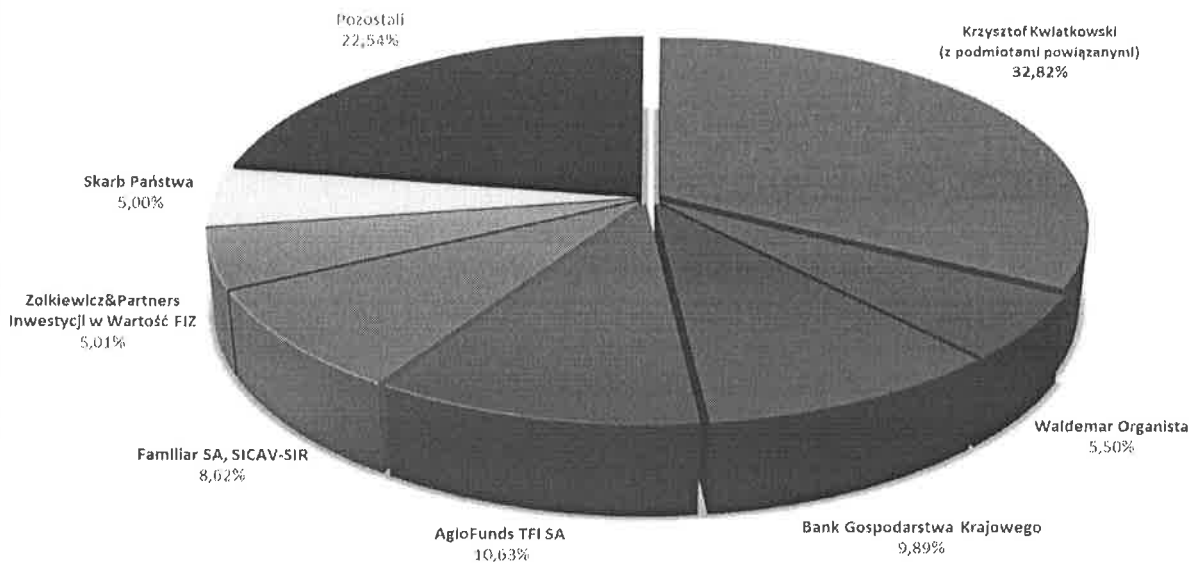
As stipulated by art. 55 of the Accounting Act, the Capital Group produces consolidated financial statements of the Capital Group in accordance with the International Financial Reporting Standards approved by the European Union and in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2018.757, standardised text), based on financial statements of units within the Capital Group.

Pursuant to art. 57(1), of the Accounting Act, subsidiaries are fully consolidated. It means that individual items of financial statements are summed up in full amount and then, mutual transactions made between units of the Capital Group are excluded.

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



Mix of shareholders of the dominant entity as at 31 December 2018:



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

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

Management Board

According to the principles outlined in the Company's Statute, the Management Board is composed of 1 to 5 Members. President and all Members are appointed by the Supervisory Board. The collective term of office of the Management Board is 3 years.

As at 31 December 2018, composition of the Management Board was as follows:

Krzysztof Kwiatkowski – President

Elektrociepłownia "Będzin" S.A. applies corporate governance in compliance with the "Best Practice for GPW Listed Companies 2016". The Corporate Governance Statement for 2018 represents Appendix 1 hereto.

During the financial year and until the date of preparing the management report of the dominant entity, there were no changes in the Management Board.

Supervisory Board

As at 31 December 2018, the Supervisory Board was composed of the following six individuals:

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

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

As at 31 December 2018, the Supervisory Board operated in the following five-member composition:

- | | | |
|----|--------------------|---|
| 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, |

Audit Committee

The Audit Committee in the period from 1 January 2018 to 25 May 2018 included:

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

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

As at 31 December 2018, the Audit Committee was made up of the following members:

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

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

Management Board

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

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

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

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

Management Board

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

In the reporting period, in connection with the submission on June 28, 2018, resignation from the position held by Mr. Adam Andrzejewski - Vice-President of the Management Board, the composition of the Management Board has changed. In the period from 1 January 2018 to 30 June 2018, the Management Board performed its function in the following composition:

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

From 1 July 2018 Mr. Grzegorz Kwiatkowski was appointed to the Management Board.

As at 31 December 2018, the Management Board was made up of the following members::

- | | |
|--------------------------|---|
| 1. Krzysztof Kwiatkowski | - President of the Management Board, |
| 2. Bożena Poznańska | - Vice-President of the Management Board, |
| 3. Grzegorz Kwiatkowski | - Member of the Management Board. |

Supervisory Board

In the period from 1 January 2018 to 25 April 2018, the Supervisory Board of the seventh term of office functioned in the following composition:

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

The Ordinary General Meeting of Shareholders was held on 25 April, which by Resolution No. 14 of 25 April 2018 changed the number of members of the Supervisory Board of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. up to 3 members and appointed the Supervisory Board of the 8th term. In the period from 25 April 2018 to 31 December 2018, the Supervisory Board of the Company operated in the following composition:

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

4. Manpower in Elektrociepłownia "Będzin" S.A. Group in the years 2017-2018

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

Specification	Staff numbers as at 31.12.2018	Staff numbers as at 31.12.2017
Total manpower including:	4	3
Management Board	1	1
Administration	3	2

In 2018, the following personnel changes were noted:

- employment of 1 person based on a contract of employment.

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

Specification	Staff numbers as at 31.12.2018	Staff numbers as at 31.12.2017
Total manpower including:	144	145
Management Board	2	2
Administration	31	31
Engineering-technical employees	20	20
Production employees	14	15
Direct production employees	77	77

In 2018, the following personnel changes were noted:

- a) employments and appointments – 7 persons under the Labour Code,
- b) dismissals and removals – 8 persons, including:

- 5 persons on the basis of Article 30 §1(1) of the Labour Code – mutual consent, retirement,
- 1 person on the basis of Article 30 §1(2) of the Labour Code – termination of employment contract by notice,
- 1 person on the basis of Art. 30 § 1 (1) of the Labor Code – mutual consent,
- 2 person on the basis of Article 53 §1(1b) of the Labour Code – disability benefit.

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

Specification	Staff numbers as at 31.12.2018	Staff numbers as at 31.12.2017
Total manpower including:	19	19
Management Board	3	3
Administration	16	16

In 2018, the following personnel changes were noted:

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

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

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

Elektrociepłownia BĘDZIN Sp. z o.o. observes the Remuneration Regulations of 26 October 2015 approved by force of resolution no. 52/2015 of 4 November 2015, which includes, in particular, tables of basic salary rates and rules for granting and paying out annual and quarterly bonuses for company employees.

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

5. Payroll in Elektrociepłownia "Będzin" S.A. Group in 2018

The remuneration and charges applicable in Elektrociepłownia "Będzin" S.A. (the dominant entity) in 2018 with regard to the management authorities.

Remuneration of the Management Board

Item	Name and surname	2018 Gross remuneration In PLN k	2017 Gross remuneration In PLN k
1.	Kwiatkowski Krzysztof	380.0	312.0
	TOTAL	380.0	312.0

Remuneration of the Supervisory Board

Item	Name and surname	2018 Gross remuneration In PLN k	2017 Gross remuneration In PLN k
1.	Niedźwiecki Janusz	51.6	51.7
2.	Organista Waldemar	45.6	45.7
3.	Glanowski Wiesław	45.6	45.7
4.	Piętoń Józef	0.0	21.4
5.	Mirosław Leń	45.6	24.3
6.	Kwiatkowski Grzegorz	22.8	45.7
7.	Węgorkiewicz Maciej	0.0	21.4
8.	Sobczak Wojciech	45.6	24.3
	TOTAL	256.8	280.2

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

Average monthly remuneration (excluding remuneration of the Management Board) in the Company in the years 2017-2018

Payroll fund	Average monthly remuneration, excluding remuneration of the Company's Management Board, in PLN/ month	
	2018	2017
Total remuneration	8.29	2.76
Remuneration without severance payment	8.29	2.76
Remuneration without interim payments *	8.29	2.76

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

The total value of remuneration, including awards, of the dominant entity's management authorities for the performance of their roles in the authorities of the subsidiaries, was PLN 1041k.

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

6.1. Economic and financial standing

Specification (in PLN k)	2018	2017
Fixed assets	451 314	494 529
Current assets, including:	211 273	215 845
Inventory	29 263	20 546
Short-term receivables	117 440	136 809
Cash and equivalent	24 642	30 228
Equity	172 242	169 694
Long-term liabilities	230 901	317 241
Short-term liabilities	259 444	223 439
Balance sheet total	662 587	710 374

Fixed assets change drivers (down by PLN 43,215k):

- reduction in long-term receivables from lease agreements, which exceeded the increase in the value of tangible fixed assets,

Current assets change drivers (down PLN 4,572k) – primarily:

- decrease in receivables in the financial segment - Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.

-

Long-term liabilities change drivers (down by PLN 86,340k):

- decrease in credit liabilities from financing the lease operations by Elektrociepłownia "Będzin" S.A. and Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.
- reclassification of bonds issued by Elektrociepłownia Będzin S.A. to long-term liabilities.

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

The excess of short-term liabilities to non-affiliated undertakings over the value of unencumbered short-term assets of the Group is PLN 48.2m as of 31 December 2018.

On 10 April 2019 the conditions of issue of A series bonds amounting to PLN 16.2m were changed so that the issue period was extended to 10 April 2022.

Moreover, the maturity dates of certain short-term liabilities were shifted to 31 December 2018. The maturity dates of short-term liabilities to non-affiliated entities in the amount of PLN 7 million were prolonged respectively: PLN 2.3m - by 28 February 2020 and PLN 4.7m - by 31 March 2020. As a result of the above said events after the balance sheet date, the excess in question was reduced to PLN 25m to be covered with funds generated by the Group in 2019.

6.2. Financial performance

The table below presents the highlights of consolidated profit and loss account and income statement influencing the financial performance of Elektrociepłownia "Będzin" S.A. Group in 2018 versus comparable data of the previous year.

Specification (in PLN k)	2018	2017
Revenues	207 049	204 757
Other operating revenues	7 758	7 448
Other costs by type	-185 067	-168 190
Value of goods and materials sold	-4 634	-2 095
Other operating expenses	-2 314	-2 085
Profit (loss) on operating activities	22 792	39 835
Financial revenues	4 084	1 592
Financial expenses	-21 592	-22 182
Profits (losses) of subsidiaries accounted for using the equity method	-505	-
Profit (loss) on business activities	4 779	19 245
Income tax	- 1 963	- 4 899
Net profit (loss)	2 816	14 346

Financial year 2018 was closed by Elektrociepłownia "Będzin" S.A. Group with net profit of PLN 2.816k, encompassing the profit of PLN 4.972k generated by the energy sector and the result of PLN -2.156k generated by financial sector.

Change drivers which affected net profit of Elektrociepłownia "Będzin" S.A. Group (decrease by PLN 11,530k):

- a significant increase in the prices of CO2 emission allowances
- increase in coal prices.

6.3. Liquidity and debt ratios in Elektrociepłownia "Będzin" S.A. Group in 2017-2018

Ratios	2018	2017
Total debt¹	0.74	0.76
Long-term debt²	1.34	1.87
Quick liquidity³	0.70	0.87
Current liquidity⁴	0.81	0.97

1. total liabilities to total assets

2. long-term debt to equity

3. current assets less inventory to short-term liabilities

4. current assets (inventory, receivables and claims, securities held specifically for trading, cash and prepayments) to short-term liabilities

The level of liquidity ratios slightly decreased, as well as the level of the debt ratio.

The increase in the level of short-term liabilities resulting from the reclassification of bonds had a decisive impact on reducing the level of liquidity ratios

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

7.1. Development prospects

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

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

Within the scope of its development strategy, the Group intends to undertake actions aimed at:

- value increase for stockholders,
- expansion of heating markets by implementing new customer initiatives,
- boosting electricity sales proceeds by participating in the capacity market,
- contracting policy for electricity sales, purchase of CO2 emission allowances,
- preparing Elektrociepłownia BĘDZIN Sp. z o.o. to burn fuels other than hard coal (gas),
- higher economic effectiveness of the operations of Elektrociepłownia BĘDZIN Sp. z o.o. by generating extra proceeds from the sales of excess water produced in the upgraded water demineralisation plant

- development of the product offer in the financial segment, addressed to a corporate client as well as units of the local government, with particular consideration given to investment leasing and accounts receivable purchase,
- higher sales volume of respective operating segments with concomitant margin build-up,
- establishment of long-term relations with the Clients,
- optimal use of the organisation's potential.

7.2. Risk of competition in the power sector

The main competitor of Elektrociepłownia BĘDZIN Sp. z o.o. subsidiary on the local heat market are sources belonging to TAURON Wytwarzanie S.A. (Łagisza Power Plant) and TAURON Ciepło Sp. z o.o. (ZW Katowice), both companies within TAURON Polska Energia SA Group. In addition, there is one more company which operates on the local market - TAMEH, in which 50% of shares are held by TAURON Polska Energia S.A.

ZW Katowice has BCF100 heat unit with CFB 134 fluidized bed coal boiler with thermal power of 180 MW and peak water gas oil boilers with installed capacity of 3x38 MW.

In January 2019, Elektrownia Łagisza plans to shut down

blocks No. 6 and 7 with the total installed thermal power of 306 MW (the achievable thermal power of 279.2 MW). To replace the blocks being shutdown, TAURON Wytwarzanie S.A. plans to invest in Łagisza power plant heat supply by modernizing the 460 MW turbine for heating purposes, constructing a heating station connected to the existing network and building peak-reserve boilers. The investment in block 10 heat supply will provide 150 MW of thermal power. The peak-reserve source will be composed of four identical boilers with thermal power of approximately 36 MWt each with 2 x 2000 m³ oil tanks.

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

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

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

Alternatively, Elektrociepłownia BĘDZIN Sp. z o.o. may acquire end recipients of heating pursuant to TPA principles or directly participate in the Low Emission Liquidation Program.

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

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

The leasing industry in which the Company operates is highly competitive. The presence of numerous entities of different size and profile and the potential entry of new entities providing services within Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. area of operations triggers the risk of lower demand for the Company's services.

Nonetheless, the risk is mitigated by specific targeting of the services and by the Company's power sector specialisation and expertise. Given its strategic profile, the power sector will have to invest in development of new capacity and renovation of the existing capacity, regardless the market climate.

The Company's strong market position and efficiency of the adopted business model is reflected in the financial history. For 22 years of its operations, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. has never recorded net loss.

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

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

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

No court proceedings are pending by or against Energetyczne Towarzystwo Finansowo - Leasingowe ENERGO – UTECH S.A. (subsidiary).

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

Revenue from services provided by Elektrociepłownie "Będzin" S.A. - the dominant company was as follows:

Revenues (in PLNk)	2018	2017
Leasing revenues	2 008	2 112
Other revenues	995	332
total	3 003	2 444

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

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

Revenues(in PLN k)	2018	2017
Revenues from leasing services	24 487	23 935
Revenues from factoring services	1 638	1 337
Revenues from rental services	4 661	5 796
Revenues from loans provided	1 265	1 319
Other revenues	187	392
total	32 237	32 779

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

The production structure in 2017 and 2016 was as follows:

Production	Unit	2018	2017
Heat in water	GJ	2 133 041	2 395 266
Heat in steam	GJ	293 939	297 986
Electric power	MWh	479 297	462 245

The quantitative sale structure in 2018 and 2017 was as follows:

Sale	Unit	2018	2017
Heat	GJ	2 136 356	2 411 949
Electric power from own production	MWh	404 336	391 570

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

10.1. Sale markets

It is the subsidiaries' sale markets that are respective for Elektrociepłownia „Będzin” SA as a holding company managing its subsidiaries.

Elektrociepłownia BĘDZIN S.A. Group is the main source of heat in terms of heating, usable hot water and technological heat within the territory of the Silesian voivodship for Sosnowiec and, partially, Będzin and Czeladź.

The produced electric power is fed to the national power system.

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

10.2. Sources of production input, goods and services

Hard coal

Polska Grupa Górnicza S.A.	273 300.16 Mg	90.40 %
ATEX	20 000.42 Mg	6.60 %
PGG Bolesław Śmiały	3 588.14 Mg	1.20 %
PGG RUCH HALEMBA	5 295.62 Mg	1.80 %

Water

Rejonowe Przedsiębiorstwo Wodociągów i Kanalizacji w Sosnowcu S.A.	- 46 213 m ³
Przemsza River	- 717 329 m ³

Funding

From the beginning of its operations, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. has been closely cooperating with banks in terms of financing the business activity through loans and credits. As at 31 December 2018, total liabilities arising from said loans and credits were PLN 324.164k.

Main financing banks:

PEKAO S.A.	PLN 157.742k
ALIOR BANK S.A.	PLN 41.247k
mBank S.A.	PLN39.727k
PKO BP S.A.	PLN28.576k

10.3. Main off-takers

Electric power off-takers

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

Heat off-takers

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 service customers

„WARBUS” Sp. z o.o.	9 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

11. Information about valid agreements, significant for the activity of the Group entities in 2018

On 30 September 2014, Elektrociepłownia BĘDZIN Sp. z o.o. signed a contract for the implementation of the following task: "Construction of flue gas desulphurisation and denitrification installation at Elektrociepłownia BĘDZIN Sp. z o.o. "with SBB ENERGY S.A. worth PLN 129,975k

Funds for financing the investment were acquired within the Capital Group by Towarzystwo Finansowo-Leasingowe Energo Utech S.A. from a bank loan.

The investment ended in 2018 as the last part of the installation was commissioned.

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

In 2018, Mr Krzysztof Kwiatkowski, President of the Management Board of the dominant entity purchased shares of the dominant entity. In effect of the transaction, President of the Management Board of the dominant entity increased his share in the share capital of the dominant entity up to 32.82% (1,033,499 shares).

In 2018, Mr Waldemar Organisty, Member of the Supervisory Board of the dominant entity sold shares of the dominant entity. In effect of the transactions, the Member of the Supervisory Board of the dominant entity decreased his share in the share capital of the dominant entity down to 5.50% (173,146 shares).

On 6 September 2018 the shareholding level dropped from 99.95% to 19.99%, which made the subsidiary ENERGO-BIOMASA Sp. z o.o. a joint venture.

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

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

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

In 2018, 35 credit agreements were signed for the total amount of PLN 79,404k. The agreements were signed, inter alia, with PEKAO S.A. (PLN 38,437k), mBank S.A. (PLN 25,849k) and BGK (PLN 6,000k).

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

In 2018, the Group entities did not provide any loans either to connected entities or to entities from outside the Group.

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

On 1 December 2017, Elektrociepłownia BĘDZIN Sp. z o.o. received a performance bond from SBB Energy S.A. for the task "Construction of flue gas desulphurisation and denitrification installation in Elektrociepłownia Będzin Sp. z o.o. ". Pursuant to the terms and conditions of the agreement, security (in the amount of PLN 574k) was contributed for stage III liabilities arising from performance bond or warranty. The performance bond remains valid till 8 November 2019.

The Company received a blank promissory note declaration dated 29 January 2018 pertaining to a promissory note issued by Wojewódzki Szpital Specjalistyczny [*provincial specialist hospital*] im. św. Barbary in Sosnowiec, in the amount corresponding to the amounts due maturing on the date of the promissory note, under the contract no. 12/EC/2018, up to the amount of PLN 1,905k.

On 26 March 2018 the Company received a performance bond for the liabilities from statutory warranty and quality guarantee no. BOFH18010862 GP/K from SBB Energy SA up to the amount of PLN 359k. The bond is valid until 20 March 2020.

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

Entities of the Capital Group did not publish any projections of 2018 financial result.

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

Presently, the Group is not exposed to the liquidity risk.

The excess of short-term liabilities to non-affiliated undertakings over the value of unencumbered short-term assets of the Group is PLN 48.2m as of 31 December 2018. On 10 April 2019 the conditions of issue of A series bonds amounting to PLN 16.2m were changed so that the issue period was extended to 10 April 2022.

Moreover, the maturity dates of certain short-term liabilities were shifted to 31 December 2018. The maturity dates short-term liabilities to non-affiliated entities in the amount of PLN 7m were prolonged respectively: PLN 2.3m - by 28 February 2020 and PLN 4.7m - by 31 March 2020. As a result of the above said events after the balance sheet date, the excess in question was reduced to PLN 25m to be covered with funds generated by the Group in 2019.

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

Investment activity of Elektrociepłownia "Będzin" S.A. Group in 2018

In 2018, the Group delivered investment tasks in the amount of PLN 7,625k.

The delivery of said investment tasks brought the expected technical-business and environmental effects, including:

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

On 28 February 2018 the "Upgrade of the Water Preparation Plant" was finally commissioned and handed over.

On 5 March 2018 Stage 5 of "Construction of a Flue Gas Denitrification Plant for Boiler WP-70 no. 5" was finally commissioned and handed over.

Under the project "Innovative technological installation securing optimum cooperation of the CHP plant with highly efficient heat accumulation system assisted with a smart decision-making system at the CHP market" a task called "Retrofitting and modification of the technological system of EC BĘDZIN - installation of a network pump PS4* along with piping, fitting and wiring and C&I equipment in order to retrofit the technological installation as part of the project implementation" was performed in 2018. On 12 October 2018 the investment task was finally commissioned and handed over.

The dominant entity manages the bond issuance carried out on 13 April 2015 pursuant to article 9(3) of the Act on Bonds of 29 June 1995 (Journal of Laws 2014.730, consolidated text, as amended) of the whole block of 3000 bearer dematerialised bonds, entitling only to cash benefits, said bonds non-secured, with 3Y redemption, unit nominal value of PLN 10k and total nominal value of all bonds of PLN 30,000.00k. In 2018 the issue period was extended by 10 April 2019.

On 9 April 2019 the Conditions of Bonds Issue were changed so that the said issue period ends on 10 April 2022. The other Conditions of Issue for "A" Series Bonds remain intact.

Investment activity planned by Elektrociepłownia "Będzin" S.A, Group in 2019

Capital expenditures on investment activity planned by the Capital Group in 2019 include:

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

In 2010, the Group's entity Elektrociepłownia BĘDZIN Sp. z o.o. plans to incur capital expenditures of PLN 1,020.5k on investments related to adjusting the Company to functioning after year 2019.

In 2019, the following internal investment are planned :

- upgrade of the gas analyser,
- upgrade of the electricity production monitoring system,
- replacement of hydrophore switchgear,
- replacement of the PC4 cooling water pump,
- execution of boiler house protection K5 - K7 against low temperatures in the winter period after boiler dismantling,
- upgrade of the elevation of the BUS building.

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

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

In 2018, the value of repair works performed was PLN 9 961k. The works were carried out according to the schedule.

Repairs of main production equipment scheduled for the aforementioned term included, amongst others: medium level overhaul of the boiler WP-70 no. 5 with electrostatic filter.

Under a routine overhaul - an overhaul of a turbine unit 13UCK80 of 81.5 MW and of a boiler OP-140 no. 6 and 7 with electrostatic filters.

In December 2018 the dismantling of boiler WP-120 No. 8 was completed.

Repair activity of Elektrociepłownia "Będzin" S.A. Group planned in 2019

Funds to be allocated to the repair activity in 2019 amount to PLN 10 480k. The planned activity includes on-going and medium repairs of the main production devices in order to ensure their availability in the heating season.

As part of ongoing repairs, it is planned to carry out renovation work on the TG-1 turbine set, steam boilers OP-140 No. 6 and 7 and the water boiler WP-70 No. 5.

Scheduled medium-sized overhaul of auxiliary equipment include renovation works on water management, deslagging system, engine room, steam and water boiler mills as well as in buildings and industrial buildings.

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

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

Business activity factors

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

Main macroeconomic ratios

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

Political factors

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

Legal and regulatory environment

The activity of the Capital Group in the power sector is carried out in the environment governed by specific legal regulations at the domestic and the European Union level. Legal regulations are often the outcome of political decisions, hence the risk of frequent fluctuations in that respect, hardly predictable from the Group's perspective.

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

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

Throughout 2018 the application of support measures for electricity generated in high efficiency cogeneration continued by way of obtaining certificates of origin from cogeneration, the so-called "red certificates". Pursuant to the Act on Promoting Electricity from High Efficiency Cogeneration dated 14 December 2018, as of 2019 the previous support system has changed and Elektrociepłownia BĘDZIN Sp. z o.o. does not qualify for the new support mechanisms.

With respect to the amended Energy Law, since 2019 an energy company which generates electricity has been bound to sell the generated electricity on commodity markets as construed by the Act on Commodity Markets dated 26 October 2000, on a market organized by an entity running a regulated market on the territory of the Republic of Poland or on an organized trading facility.

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

Investments

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

- construction of flue gas desulphurisation and denitrogenation installation, which enabled the Company's operations after 1 January 2016. In 2016, the desulphurisation installation for boilers: OP-140 no. 6, OP-140 no. 7 and WP-70 no. 5, as well as, flue gas denitrogenation installation for boiler OP-140 no. 7, in 2017, the flue gas denitrification installation of OP-140 No. 6., and in 2018, the flue Gs denitrification installation for boiler no WP-70 no 5.

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

The Group company Elektrociepłownia Będzin Sp. z o.o. as well as Tauron Ciepło Sp. z o.o. take actions aimed to change the current non-ecological method of heating buildings, by way of connecting them to the heating grid. To achieve the ambitions, on 27 February 2015, the entities signed a marketing agreement amended by annex of 1 June 2015, whereby the growth of capacity resulting from orders related to liquidation of low emission is estimated by the parties at 54 MWt. What is more, in January 2019 the Company commenced the implementation of a program for providing additional financing to construct or upgrade internal installations of the new end recipients to be connected to the heating system.

New environmental requirements

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

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

On 17 August 2017, the Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 establishing best available techniques (BAT) conclusions, under Directive 2010/75/EU of the European Parliament and of the Council, for large combustion plants, came into effect. Publication of a legally binding document has started a 4-year period for the adaptation of the plants to the requirements set out in the foregoing document. It means that the requirements set out in the BAT conclusions will apply as of 17 August 2021.

EU ETS

On 8 April 2018 a Directive (EU) 2018/40 of the European Parliament and of the Council of 14 March 2018 amending Directive 2003/87/EC to enhance cost-effective emission reductions and low-carbon investments, and Decision (EU) 2015/1814 (Official Journal of the EU, no. 76, page 3 and on) came into effect. The document introduced a number of reforms to the previous system. The changes pertain to the fourth period of the system's operation from 2021 to 2030. The main assumptions of the fourth phase of EU ETS are the following:

- starting the Market Stability Reserve system,
- increasing the Linear Reduction Factor,
- establishing the Innovation and Modernisation Fund,
- the number of allowances available at CO₂ emission allowances auctions,
- the number of free allowances allocated during the regulation.

Financial Markets (MiFiD2)

In January 2018 a new packet of MiFiD 2 regulations came into effect. It aims to enhance the markets of financial instruments. Due to the regulations, at the beginning of the year the CO₂ emission allowances became a financial instrument, which enabled big financial institutions to enter the respective market.

On 21 April 2018 an Act Amending the Act on Trading in Financial Instruments and Certain Other Acts dated 1 March 2018 (Journal of Laws 2018.685) came into effect. It aimed to bring the so-called MiFiD2 directive into the Polish legal system. The amendments aimed to

enhance security and transparency of contracting and to strengthen the regulatory supervision over the commodity market for derivative contracts, emission allowances and their derivatives.

Free of charge CO₂ emission allowances

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

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

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

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

Electric power prices

The price of electric power is shaped by numerous elements, including, amongst others, market and regulatory factors. It is expected that the main factors influencing the energy prices at the domestic level will include:

- Cost of production fuels,
- Purchasing cost of CO₂ emission allowances
- Power generated in RES,
- Capital expenditures on modernisation of utilities in the context of environmental requirements,
- Investments in new production capacity and replacement of old, outdated utilities,
- Investments in the transmission system,

Electric power demand

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

Poland's energy policy until 2040

In 2018 the Ministry of Energy commenced works on Poland's Energy Policy until 2040 and submitted a respective draft for consultations.

The primary policy directions for the years to come are the following:

- optimum use of Poland's own energy resources,
 - expansion of electricity manufacturing and network infrastructure,
 - diversification of gas and oil supplies and the expansion of network infrastructure,
 - development of energy market,
 - implementation of nuclear energy,
 - development of renewable energy sources,
 - development of heating and cogeneration,
- improvement of the economy's energy effectiveness.

Long-term development of the power market

On 16 February 2016, the Polish government adopted the "Responsible Development Plan". The document determines the main directions of the state activity and new stimuli ensuring stable development of Poland in the future.

The main assumption behind the foregoing plan is that development of Poland should be based on the following five pillars:

- reindustrialization,
- development of innovative companies,
- capital for development,
- foreign expansion,
- social and regional development.

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

Capacity Market.

In 2017 Capacity Market Act (Journal of Laws 2018, item 9) was passed. It aimed to provide for continuity and stability of electricity supply for the industrial sector and households alike. The implementation of a capacity market implies a change of the energy market from a single commodity to dual commodity market, whereunder not only the generated energy, but also the readiness to deliver the energy to network (net achievable capacity) may be traded. The selection of remunerated capacity market units will be based on Dutch auction system. There will be capacity auctions held at the capacity market whereunder capacity suppliers will offer a capacity obligation, i.e. the capacity supplier's readiness obligation to deliver, over the supply period, certain capacity to the system by a physical generating unit and to supply certain capacity during an emergency. The first auctions took place in 2018 and they pertained to the supply period from 2021 to 2023. Elektrociepłownia BĘDZIN Sp. z o.o. was bound by the capacity obligation in the amount of 55 MW in 2021 and 2022. The resulting revenues are estimated at PLN 13.2 and 10.89 million respectively.

The situation in the domestic hard coal mining sector.

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

General Data Protection Regulation (GDPR)

Since 25 May 2018 the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27th April 2016 on the Protection of Natural Persons with regard to the Processing of Personal Data and on the Free Movement of such Data, and Repealing Directive 95/46/EC has been in force.

GDPR applies in all member states. This regulation introduces new principles for personal data processing and it imposes new obligations on data controllers. All of the entities of the Group of Elektrociepłownia Będzin S.A. comply with the new provisions in their business operations. In particular, the provisions pertain to safeguarding the security of the personal data being processed, while guaranteeing the protection of rights and freedoms of data subjects.

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

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

Elektrociepłownia "Będzin" S.A. structure includes the Corporate Governance and Investor Relations Department in charge of the Company issues, among others, the Company's obligations stipulated by the Regulation of the Minister of Finance of 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.

In 2018, no changes occurred in the principles of managing the Group's entities.

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

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

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

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

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

24. Information on liabilities resulting from old-age pensions and related in the Group's companies.

The companies of the Group of Elektrociepłownia Będzin S.A. do not hold any liabilities resulting from old-age pensions or related, to former managers, supervisors or former administrative bodies, nor liabilities incurred in conjunction with the old-age pensions.

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

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

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

Specification	As at 31 December 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
Total	2 439 479	2 439 479	77,46	77,46

* with subsidiaries

Shareholding of persons holding managerial and supervisory positions.

As at 31 December 2018, 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
Total	1 206 645	1 206 645	38,32	38,32

* with subsidiaries

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

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

27. Information about the employee stock ownership plan control systems

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

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

It was the Supervisory Boards that selected the entities entitled to audit in the Group's joint-stock companies [SA], while the Annual General Meeting selected the entity for the limited liability company [Sp. z o.o.].

In Elektrociepłownia Będzin S.A. - by the Resolution of the Supervisory Board no. 5/IX/2018 dated 25 May 2018; Elektrociepłownia Będzin Sp. z o.o. - AGM Resolution no. 6/2018 dated 28 June, 2018. In Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech SA - the Resolution of the Supervisory Board no. 13/2018 dated 28 May 2018.

In 2018, pursuant to agreements 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 195.0k plus VAT.

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

The Group's Companies did not use the services of any other auditing entity.

29. Additional information

29.1. Natural environment issues

Emission of pollution to the atmosphere

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

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

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

Elektrociepłownia BĘDZIN Sp. z o.o. submits the mandatory reports and respects the statutory deadlines for the payment of environmental fees. In 2016 flue gas desulphurisation installation was handed over. It enables maintaining the emission standards as prescribed by the new IED Directive. However, with respect to the participation of Elektrociepłownia BĘDZIN Sp. z o.o. in the Transition National Plan, the desulphurisation installation operates at a level which enables compliance with the Plan's limits instead of strict requirements of the Directive.

In 2018 an investment aiming to build a flue gas denitrification installation for each of the Company's boilers was completed. The installation's tests confirmed the installation could be operated permanently under the operating regimes in force since 1 January 2019.

Trade in emission allowances

In March 2018 the 2017 annual report on CO₂ emission was verified by an accredited verifier from TÜV Rheinland Polska Sp. z o.o. The annual report was given a positive opinion.

In 2018 the account of Elektrociepłownia BĘDZIN Sp. z o.o. maintained with the Union Registry was credited with free CO₂ emission allowances for 2018. Further, in February 2019 free CO₂ emission allowances for 2019 were transferred.

In 2018 and beginning 2019 the Company purchased EUA allowances in the amount necessary to settle 2018.

The 2018 annual CO₂ emission report will be verified in March 2019 by an accredited verifier from TÜV Rheinland Polska Sp. z o.o.

Integrated permit

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

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

On 11 June 2018 Elektrociepłownia BĘDZIN Sp. z o.o. applied for a modification of the integrated permit as regards adaptation to the new BAT requirements, in particular, obtaining a waiver from the requirements of BAT conclusion for NOx emission.

Environment protection audits

From 18 May to 14 June 2018 the Silesian Provincial Environmental Protection Inspectorate carried out a control of compliance with environmental protection regulations governing emission of gases and dust into the air. The control outcome showed no breach.

Pursuant to Water Law dated 20 July 2017 (Journal of Laws 2017.1566 and Journal of Laws 2017.2180), the Polish Waters National Water Management Authority, Catchment Management Board in Katowice carried out controlling activities pertaining to compliance with water management conditions for all of 2018 quarters. The control outcome showed the Company was not in breach.

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

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

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

The Group's subsidiary, Elektrociepłownia BĘDZIN Sp. z o.o., a company with impressive tradition, combines the business activity with significant involvement and contribution to its home region. The Company positively responds to the local community needs.

For many years, the Company's operations have aimed to develop science, culture and art as well as to support initiatives propagating physical culture and sports.

In 2018, Elektrociepłownia BĘDZIN Sp. z o.o. acted as the sponsor and patron of various local cultural and academic events, mainly on a local scale.

The Company's operations comply with the prosocial policy and they aim to keep the existing good relations with the local community.

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

29.3. Quality assurance system audits

Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. holds the management system certificate PN-EN ISO 9001:2009 issued by the certification unit TUV NORD Polska Sp. z o.o. The certificate registration number: AC090 100/0544/477/2013. The quality assurance audit took place on 29 August 2018.

29.4. Events after the balance sheet date

In April 2019, 1,330 bonds totalling PLN 13,300k were redeemed, which, in combination with 2015 redemption of 50 bonds, brings the current issue value up to PLN 16,200k.

On 9 April 2019, in line with the amended Conditions of Issue, the end of the issue period for the bonds was shifted to 10 April 2022. The other Conditions of Issue of A series bonds remain intact.

The Management Board of Elektrociepłownia "Będzin" S.A. (dominant entity) hereby presents the Management Board Report on the activity of Elektrociepłownia "Będzin" S.A. Group in 2018 for the purpose of its publication and submission to authorities of Elektrociepłownia "Będzin" S.A. for approval. The Report was prepared based on the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2018.757, standardised text).

Management Board of Elektrociepłownia "Będzin" S.A.

Krzysztof Kwiatkowski
President of the Management Board
Poznań, 25 April 2019

**Corporate Governance Statement
Appendix 1 to**

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

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



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

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

8.2 Supervisory Board

Principles of appointing and dismissing Members of the Supervisory Board

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

Competences of the Supervisory Board

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

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

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

Table no. 3. Competences of the Supervisory Board

Matters requiring the Supervisory Board resolution

1. Accepting the rules and regulations of the Management Board of the Company and passing opinions concerning the organizational rules and regulations which describe the organization of business activity of the Company,
2. Accepting the business plan,
3. Adopting the rules of remuneration of the Management Board and the 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. 406¹ to 406³ 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"> 1. Review and approval of financial statements for the ended fiscal year, as well as, the report of the Management Board regarding the activity of the Company. 2. Giving the vote of approval to members of the Company's authorities regarding performance of their duties, 3. Distribution of profits and coverage of losses, 4. Changing the aim of the business activity of the Company, 5. Changing the Statute of the Company, 6. Increasing or decreasing the share capital, 7. Terms and conditions of redemption of shares, 8. Mergers and transformations of the Company, 9. Termination and liquidation of the Company, 10. Issuing convertible bonds or bonds with pre-emptive rights and issuing subscription warrants referred to in art. 453 §2 the Code of Commercial Companies, 11. Selling and leasing the enterprise, establishing usufruct right on the enterprise, 12. Raising and cancelling the Company's capital. 13. Any provisions concerning claims for redressing the damage which occurred upon the establishment of the Company or performing management or supervision duties.

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

11.1 Management Board

The present, ninth term of office of the Management Board has run since 2016. In accordance with the Company's Statute, the term of office runs three years. As at 31 December 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 Glanowski | - 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 consisted of:

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

In relation to the submission on 25 May 2018, the resignation from the position of Member of the Audit Committee by Mr. Grzegorz Kwiatkowski, as at 31 December 2018, the composition of the Committee was in the following:

- | | |
|-----------------------|-----------------------------------|
| 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 15th 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.

a) Janusz Niedźwiecki - the Chairman of the Audit Committee meeting the independence criteria referred to in Article 129, Section 3 of the Act on Certified Auditors, Auditing Entities and Public Supervision dated 11th May 2017, hereinafter referred to as "the Act", having the knowledge and skills in the Issuer's respective industry referred to in Article 129, Section 5 of

the Act and in accounting or auditing financial statements pursuant to Article 129, Section 1 of the Act. He is a graduate from Gdańsk University of Technology: Faculty of Electrical Engineering, with a major in: Construction of Machinery and Electrical Devices - Electrical Engineer, Faculty of Management and Economics - the field of: Management and Marketing, with a major in: Economics and Finance - Master of Economics. Further, Mr Janusz Niedźwiecki completed his post-graduate studies in management at Nicolas Copernicus University in Toruń - Faculty of Economic Science and Management. He gained his professional experience in his function of a Chairman of the Supervisory Board of TROPS SA since 18th July 2014 and a Chairman of the Supervisory Board of Apator SA since 25th June 2013. Since 2005 he has been a Member of the Supervisory Board of Apator Metrix SA. (a company being part of the Apator Group), he has held the function of a Member of the Supervisory Board of a Brokerage House at INVESTMENTS SA. From 2000 to 2013 he held the function of the President of the Management Board of Apator SA - the General Director. From 1998 to 2000 he was a Member of the Management Board of Apator SA - the Marketing Director. From 1989 to 1998 he worked at PZAE Apator, a state-owned enterprise, and then at Apator SA, the commercial division. From 1983 to 1989 he worked at Gdańsk University of Technology.

b) Waldemar Organista - member of the Audit Committee having the skills in the Issuer's respective industry referred to in Article 129, Section 5 of the Act. A graduate from Poznań University of Technology. He was a member of the university's staff, the Institute of Civil Engineering. From 1983 to 1985 he was the Head of Zakład Usług Budowlanych [construction enterprise] S.S.P. "Akademik", and from 1985 to 1988, a Member of the Management Board of Praca Expo - Service and the Head of the Repair and Construction Enterprise. Since 1986 he has been a Chairman of the Management Board of Przedsiębiorstwo Usługowe "UTECH" Sp. z o.o. He has served on Supervisory Boards of the following entities: Fabryka Maszyn Górniczych PIOMA S.A. - Member, Szczecin Steelworks [Huta Szczecin], and he is now sitting on the Supervisory Boards of: "Power Engineering" S.A. in Czerwonak - Deputy Chairman, Energetyczne Towarzystwo Finansowo Leasingowe "ENERGO-UTECH" S.A. - Deputy Chairman and Power Engineering Transformatory Sp. z o.o.

c) Wojciech Sobczak - Member of the Audit Committee meeting the independence criteria referred to in Article 129, Section 3 of the Act. He is a graduate from Kazimierz Wielki University in Bydgoszcz, having the knowledge and skills in accounting or auditing financial statements as referred to in Article 129, Section 1 of the Act. From 1990 to 2007 he held the position of a securities broker, and then an advisor to the Director of Bankowy Dom Maklerski [brokerage house] PKO BP SA. From 2007 to 2008 he was the President of KREZUS SA, a national investment fund. From 2008 to 2010 he performed the function of a President and Deputy President of SUWARY SA, and from 2012 to 2014, a Deputy President and Director of Finance at SKOTAN SA. From 2014 to 2015 he was a Member of the Management Board of Destylacje Polskie Sp. z o.o., and from 2010 to 2017 an advisor to Wentworth Tech Sp. z o.o. with respect to finance and capital restructuring at M&A and SPO transactions. He is now the President of NETWISE SA, a position he has held since 2017. Since 2018 he has also been a Member of the Audit Committee and a Chairman of the Supervisory Board of PROTEKTOR SA. While on management boards of companies, including listed companies, he was responsible for managing their finance divisions, including preparation and implementation of short- and long-term strategies, he managed the operations, finance and the commercial and purchase division and prepared supervisory actions over investment projects. He holds the licence of a securities broker.

d) Grzegorz Kwiatkowski - Member of the Audit Committee having the knowledge and skills in accounting or auditing financial statements referred to in Article 129, Section 1 of the Act, a graduate from the University of Economics and Business in Poznań. He holds a Master's degree in Management with a major in capital investments and financial strategies of enterprises. He went on to study at the University of Salford (MSc level) with a major in

Investment Banking. In 2016 he completed a course in investment advisory. From 2010 to 2011 he was a Director of Finance at Autodirect SA, and from 2011 to 2017, the company's President and Director of Finance. From 2014 to 2015 he was a Member of the Management Board at Minicar Polska Sp. z o.o. From 2012 to 2017 he was a Finance Advisor at Energomar Sp. z o.o. He also served on supervisory boards of the following: from 2006 to 2009 - Member of the Supervisory Board at Styropoz Sp. z o.o., from 2014 to 2017 - Member of the Supervisory Board at Elpe Elektroprodukt Sp. z o.o., since 2017 - Member of the Supervisory Board at Power Engineering Transformatory Sp. z o.o. And Power Engineering S.A.

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.

Poznań, 17 May 2019

Krzysztof Kwiatkowski
President of the Management Board

**Assessment of the Supervisory Board of Elektrociepłownia
“Będzin” SA regarding Elektrownia “ Będzin” S.A. Capital
Group management report
and the consolidated financial statements with respect to consistency with
the books, documents and the factual circumstances**

pursuant to §71, Section 1, Item 12 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 consolidated financial statements of Elektrownia “ Będzin” S.A. Capital Group comprising:
 - a) consolidated statement of financial position as at 31st December 2018 which shows PLN 662,587k on the side of assets and liabilities (say: six hundred sixty two million five hundred and eighty seven thousand Polish zloties),
 - b) consolidated profit and loss and other comprehensive income showing as at 31st December 2018 which shows a net profit of PLN 2,548k (say: two million five hundred and forty eight Polish zloties),
 - c) consolidated 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 2,548k (say: two million five hundred and forty eight Polish zloties),
 - d) consolidated cash flow statement for the period from 1st January 2018 to 31st December 2018 showing net decrease in the cash balance by PLN 5,586k (say: five million five hundred and eighty six thousand Polish zloties)
- the management report of Elektrownia Będzin S.A. Capital Group 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 Capital Group and Issuer’s management report and the consolidated 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