

INDEPENDENT AUDITOR'S REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Supervisory Board of Elektrociepłownia „Będzin” Spółka Akcyjna

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of the Capital Group Elektrociepłownia „Będzin” Spółka Akcyjna (hereinafter: the “Group”), for which Elektrociepłownia „Będzin” Spółka Akcyjna with its registered office in Poznań at ul. Krzywoustego 7 is the Parent (hereinafter: the “Parent”), comprising: the condensed consolidated statement of financial position prepared as at 30 June 2019, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows for the period from 1 January 2019 to 30 June 2019, and selected explanatory notes (“interim condensed consolidated financial statements”).

The Management Board of the Parent is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 “*Interim Financial Reporting*” announced in the form of Commission Regulations.

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Review scope

Except as explained in the following paragraph, we conducted the review in accordance with the International Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*” in a version adopted by the National Council of Statutory Auditors as the National Standard on Review Engagements 2410 (“NSRE”).

The review of the consolidated financial statements consists in directing inquiries primarily to persons responsible for financial and accounting matters as well as conducting analytical procedures and other review procedures. The review scope is significantly narrower than the audit carried out in accordance with the National Standards on Auditing. Therefore, a review is insufficient to assure that all relevant issues that would have been revealed during the audit were identified. Accordingly, we do not express an audit opinion on these interim condensed consolidated financial statements.



Basis for Qualified Conclusion

As at 30 June 2019, the Capital Group Elektrociepłownia „Będzin” Spółka Akcyjna recognised fixed assets at a total of PLN 235,392 thousand in its consolidated balance sheet. As at the balance sheet date, the Management Board of Elektrociepłownia Będzin Sp. z o.o., a subsidiary company, carried out an impairment test of fixed assets with a balance sheet value of PLN 211,000 thousand. The assets were related to the CHP plant, and the test did not indicate impairment. Under note 12 “Property, Plant and Equipment” to the interim condensed consolidated financial statements, the Group presented the assumptions adopted for the test. In the course of the review, we were unable to obtain sufficient and appropriate data and information from the Management Board of the subsidiary which would confirm that the key test assumptions and parameters adopted, and the electricity price paths in particular, were accurate. Therefore, we were unable to determine whether the value of fixed assets of Elektrociepłownia Będzin Sp. z o.o. would have to be adjusted.

Furthermore, in H1 2019, the Capital Group Elektrociepłownia „Będzin” Spółka Akcyjna changed its methodology of calculating expected credit losses. As a result, it recognised an impairment loss on financial assets at PLN 11,735 thousand in its accounting records, and presented it in its interim condensed consolidated financial statements. The review procedures regarding the financial statements did not involve verifying the opening balance. Therefore, we are unable to conclude whether the use of this methodology with respect to data as at 31 December 2018 would not lead to a part of the impairment loss being recognised in prior periods.

Qualified Conclusion

Except for the adjustments to the interim consolidated financial statements that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting” announced in the form of Commission Regulations.

Auditor conducting the review on behalf of Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. — entity entered under number 73 on the list of auditors kept by the National Council of Statutory Auditors:

Jacek Mateja
Registered under number 9736

Warsaw, 1 October 2019

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STANCE OF THE MANAGEMENT BOARD AND OPINION OF THE SUPERVISORY BOARD OF ELEKTROCIĘPŁOWNIA "BĘDZIN" SA ON THE RESERVATIONS VOICED IN THE INDEPENDENT CERTIFIED AUDITOR'S REPORT ON THE REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

The report of an independent certified auditor Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. ("Auditor") on the review of interim condensed consolidated financial statements of Elektrociepłownia "Będzin" S.A. ("Company") for the period from 1st January 2019 to 30th June 2019 has the following reservations:

"As of 30th June 2019 the Group of Elektrociepłownia „Będzin” Spółka Akcyjna presents tangible assets of a total of PLN 235,392k in its consolidated balance sheet. As of the balance sheet day the Management Board of Elektrociepłownia Będzin Sp. z o.o., a subsidiary, performed an impairment test on fixed assets of PLN 211,000k carrying value that relate to the heat and power plant in operation. The test yielded no impairment. In Note 12 "Tangible fixed assets" to the interim condensed consolidated financial statements the Group presented the test assumptions. During review, we were at a loss to obtain from the Management Board of the Subsidiary any sufficient and relevant data or information attesting to the correctness of adopted parameters and assumptions which were central to the test's outcome, in particular, electric energy price curves. Therefore, we were unable to find whether it is indispensable to adjust the value of the fixed assets of Elektrociepłownia Będzin Sp. z .o.o., the subsidiary.

Moreover, in the 1st half of 2019, the Group of Elektrociepłownia „Będzin” Spółka Akcyjna changed the methodology for calculating expected credit loss, which resulted in recognising an impairment allowance for financial assets in the amount of PLN 11,735k in the books and in the interim condensed consolidated financial statements. The procedures for reviewing financial statements did not pertain to the verification of opening balance, therefore, we are unable to assert whether having applied the methodology for the figures as of 31st December 2018 would have resulted in recognising a portion of the allowance in earlier periods."

The difference between auditor's opinion and the stance of the Company's Management Board regards the assessment of the viability of financial projections prepared by Elektrociepłownia BĘDZIN Sp. z o.o., the subsidiary. In the opinion of the Management Board of Elektrociepłownia Będzin S.A., the impairment test assumptions for fixed assets prepared by the subsidiary are viable and they provide for the adopted electric energy price curve. In its projections, the subsidiary's Management Board adopted a viable and possible to obtain electric energy price curve and submitted the Auditor with any and all data at hand.

In its assessment of the interim financial statements of Elektrociepłownia "Będzin" S.A. for the period from 1st January 2019 to 30th June 2019, the Company's Supervisory Board considered the arguments of the Management Board and the Auditor's stance as regards the issue in question.

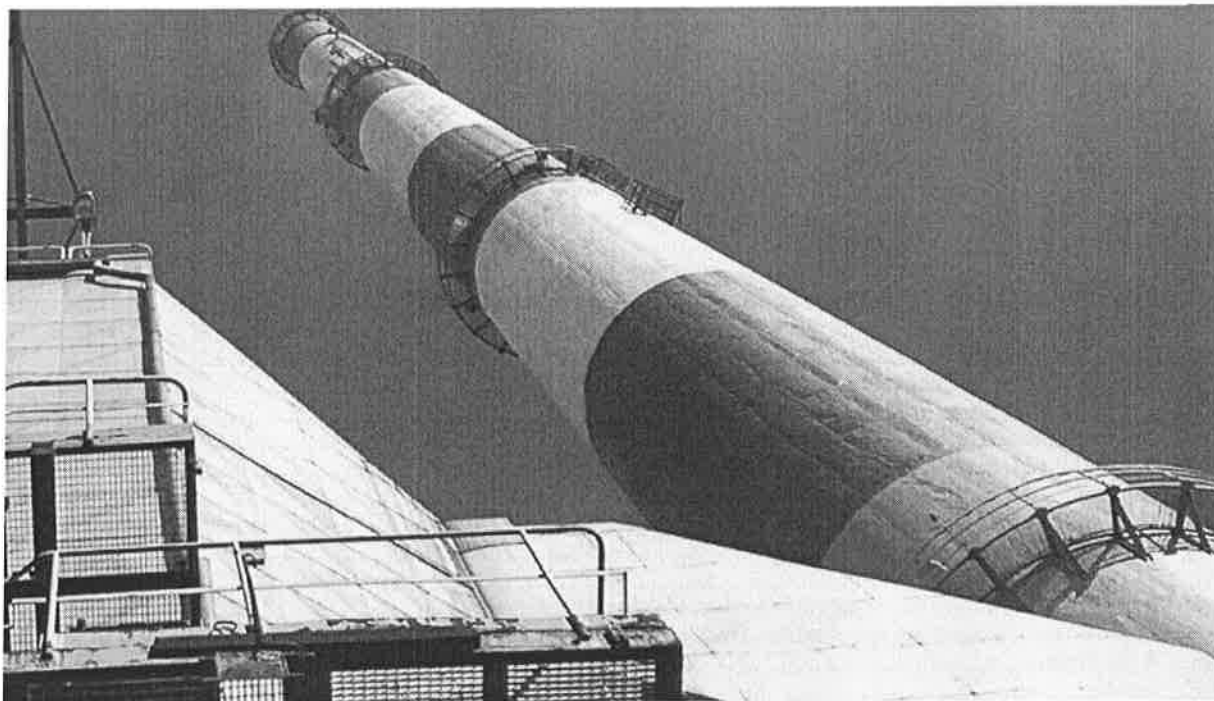
The Company's Supervisory Board agrees with the above mentioned stance of the Management Board of Elektrociepłownia "Będzin" S.A. Concomitantly, the Supervisory Board recommended that the Company's Management Board take up activities aiming to verify the adopted electric energy price curves and the methodology for calculating expected credit loss.

Management Board of Elektrociepłownia "Będzin" S.A.

Krzysztof Kwiatkowski - President of the Management Board

Supervisory Board of Elektrociepłownia "Będzin" S.A.

Janusz Niedźwiecki - Chairman of the Supervisory Board
Supervisory Board (per procura)



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

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE TERM FROM 1 JANUARY TO 30 JUNE 2019
COMPLIANT WITH IAS 34
"INTERIM FINANCIAL REPORTING"**

Contents

1.	General information.....	3
2.	Condensed consolidated statement of financial position	4
3.	Condensed consolidated statement of profit and loss account and other comprehensive income.....	6
4.	Condensed consolidated statement of changes in equity.....	7
5.	Consolidated cash flow statement.....	8
6.	Data of the parent entity and of the Capital Group.....	9
7.	Basis for the condensed interim consolidated financial statement.....	10
7.1	Statement of compliance	10
7.2	Basis for valuation.....	10
7.3	Functional and presentation currency.....	10
7.4	Judgements and estimates.....	10
8.	Description of key accounting principles.....	12
9.	Financial risk management.....	14
10.	Business segments reporting	14
11.	Podatek dochodowy	Błąd! Nie zdefiniowano zakładki.
12.	Tangible fixed assets	17
13.	Wartości niematerialne	Błąd! Nie zdefiniowano zakładki.
14.	Impairment charges on receivables from leasing agreements	21
15.	Impairment charges on receivables from loan agreements	21
16.	Revenues.....	21
17.	Equity.....	22
18.	Profit per share	23
19.	Employee benefits	23
20.	Provisions	24
21.	Fair value of financial instruments.....	24
22.	Contractual liabilities raised to purchase tangible fixed assets and intangible assets	25
23.	Explanations concerning seasonal or cyclical profile of the Group's activity.....	25
24.	Conditional liabilities and proceedings pending before court	25
25.	Property collateral	26
26.	Dividend received.....	26
27.	Transactions with connected entities.....	26
28.	Events after the balance sheet date.....	26
29.	Manpower.....	27
30.	Information of a failure to repay a credit or a loan or on a breach of material provisions of a credit or a loan agreement.....	27
31.	Approval of consolidated financial statements	27

1. General information

These condensed interim consolidated financial statements for the term from 1 January to 30 June 2019 have been produced pursuant to International Accounting Standard 34 "Interim Financial Reporting" approved by the European Union.

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

- Condensed interim consolidated statement of financial position produced as at 30 June 2019,
- Condensed interim consolidated Profit and Loss Account and other comprehensive income for the terms of three and six months ending on 30 June 2019,
- Condensed interim consolidated statement of changes in equity for the period from 1 January to 30 June 2019,
- Condensed interim consolidated Cash flow statement for the period from 1 January to 30 June 2019,
- Additional information to the condensed interim consolidated financial statements.

Management Board of Elektrociepłownia "Będzin" S.A.

Krzysztof Kwiatkowski
President of the Management Board

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

Bożena Poznańska

Poznań, 30 September 2019

2. Condensed consolidated statement of financial position

	Note	30.06.2019 unexamined	31.12.2018
Assets			
Fixed assets			
Tangible fixed assets	12	235 392	238 537
Intangible assets	13	3 789	3 530
Goodwill		1 937	1 937
Investments accounted for using the equity method		-	-
Receivables under lease agreements		151 757	194 252
Granted loans		9 442	11 175
Other long-term investments		10	-
Trade debtors and other debtors		1 500	1 500
Deferred tax assets		3 157	383
Total fixed assets		406 984	451 314
Current assets			
Inventories		48 651	29 263
Receivables under lease agreements		74 734	94 978
Granted loans		27 109	37 936
Other investments		-	-
Trade debtors and other debtors		7 692	22 462
Income tax receivables		1 153	1 914
Cash and cash equivalents		17 730	22 613
Accruals and prepayments		65	78
Other financial assets		2 029	2 029
Assets held for sale		-	-
Assets held for sale		-	-
Total current assets		179 163	211 273
Total assets		586 147	662 587

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

	Note	30.06.2019 unexamined	31.12.2018
Liabilities			
Equity	17		
Share capital		37 728	37 728
Supplementary capital		67 613	67 613
Reserve capital		44 843	44 843
Defined benefits plan revaluation reserve		(417)	(393)
Revaluation reserve		-	-
Other components of equity		-	-
Retained profits		15 040	22 451
Non-controlling interest		-	-
Total equity		164 807	172 242
Liabilities			
Liabilities under loans, borrowings and other debt instruments		220 562	216 700
Liabilities under employee benefits	19	5 710	5 622
Trade creditors and other creditors		513	501
Provisions		-	-
Deferred income tax provisions		7 418	8 078
Subsidies		-	-
Total long-term liabilities		234 203	230 901
Short-term liabilities			
Liabilities under loans, borrowings and other debt instruments		124 226	167 832
Trade creditors and other creditors		29 673	41 027
Liabilities under employee benefits	19	2 643	3 600
Deferred income tax liabilities		684	437
Provisions	20	29 634	46 548
Subsidies		277	-
Total short-term liabilities		187 137	259 444
Total liabilities		421 340	490 345
Total equity and liabilities		586 147	662 587

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

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

	<i>01.04.2019- 30.06.2019</i>	<i>01.04.2018- 30.06.2018</i>	<i>01.01.2019 - 30.06.2019</i>	<i>01.01.2018 - 30.06.2018</i>
	<i>unexamined</i>	<i>unexamined</i>	<i>unexamined</i>	<i>unexamined</i>
Revenues	43 888	25 383	109 134	93 848
Other operating revenues	740	1 305	1 779	1 667
Amortization and depreciation	(4 761)	(4 879)	(9 563)	(9 771)
Consumption of materials and energy	(30 868)	(12 922)	(65 621)	(49 036)
External services	(3 694)	(3 375)	(7 871)	(8 414)
Taxes and charges	(972)	(983)	(2 211)	(2 295)
Payroll and employee benefits	(5 879)	(1 691)	(11 954)	(8 473)
Other costs by type	(288)	(503)	(792)	(1 060)
Value of goods and materials sold	(255)	(1 562)	(495)	(2 283)
Other operating expenses	12	(827)	(572)	(860)
Impairment loss according to IFRS 9	(11 735)	-	(11 735)	-
Profit (loss) on operating activities	(13 812)	(54)	99	13 323
Financial revenues	267	3 245	625	3 473
Financial expenses	(4 812)	(5 305)	(9 293)	(10 316)
Net financial revenues/(expenses)	(4 545)	(2 060)	(8 668)	(6 843)
Share in net profit of entities measured by equity method	-	(505)	-	(505)
Gross profit (loss)	(18 357)	(2 619)	(8 569)	5 975
Income tax	2 916	981	1 158	(1 039)
Net profit/ (loss)	(15 441)	(1 638)	(7 411)	4 936
Other total income not taken to financial result in future reporting periods				
Revaluation of net liability under defined benefits plan	(29)	44	(29)	44
Income tax on items not taken to financial result	5	(8)	5	(8)
	(24)	36	(24)	36
Other comprehensive income per the reporting period	(24)	36	(24)	36
Profit or loss or other comprehensive income per the reporting period	(15 465)	(1 602)	(7 435)	4 972
Net profit/(loss) per share				
Main (in PLN)	(4,90)	(0,52)	(2,35)	1,57
Diluted (in PLN)	(4,90)	(0,52)	(2,35)	1,57

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

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

4. Condensed consolidated statement of changes in equity

	Share capital	Supplementary capital	Reserve capital	Defined benefits plan revaluation reserve	Retained profits	Total equity
Equity as at 01.01.2019	37 728	67 613	44 843	(393)	22 451	172 242
Net profit distribution	-	-	-	-	-	-
Profits for reporting period						
Net profit for reporting period	-	-	-	-	(7 411)	(7 411)
Other comprehensive income per the reporting period						
Revaluation of net liability under defined benefit plan (adjusted by tax)	-	-	-	(24)	-	(24)
Profit or loss or other comprehensive income per the reporting period	-	-	-	(24)	(7 411)	(7 435)
Equity as at 30.06.2019 niebadane	37 728	67 613	44 843	(417)	15 040	164 807

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

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

5. Consolidated cash flow statement

	01.01.2019 - 30.06.2019 unexamined	01.01.2018 - 30.06.2018 unexamined
Cash flow from operating activities		
Gross profit	(8 569)	5 975
Adjustments		
Depreciation of tangible fixed assets	9 257	9 354
Amortisation of intangible assets	306	417
Profit on investment activity	(163)	-
Other adjustments	(34)	-
Share in profit of entities measured with equity method	-	505
Change in receivables under lease agreements	61 163	(5 298)
Change in granted loans	11 747	(4 356)
Change in inventories	(19 388)	2 366
Change in trade debtors and other debtors	13 921	14 471
Change in trade creditors and other creditors	(10 085)	(4 669)
Change in provisions for employee benefits	(17 812)	(3 930)
Change in accruals	130	97
Change in subsidiary status	977	-
Other adjustments	(3 164)	(2 991)
Cash flows from operating activity	38 286	11 941
Net financial revenues/(costs)	8 055	10 193
Interest received	(54)	(115)
Interest paid	-	-
Income tax paid	(1 262)	(1 761)
Net cash flows from operating activity	45 025	20 258
Cash flows from investment activity		
Purchase of tangible fixed assets	(1 615)	(1 188)
Purchase of intangible assets	(565)	(77)
Purchase of other investments	(10)	-
Acquisition of a subsidiary, net of cash acquired	-	-
Disposal of tangible fixed assets	3 508	-
Sale of shares	-	-
Received dividends	-	-
Received interest	54	115
Disposal of other investments	-	-
Other expenditure	813	1 050
Net cash flows from investment activity	2 185	(100)
Cash flows from financial activity		
Net proceeds from the issue of shares	-	-
Raised loans, credits and other debt instruments	71 884	118 674
Repaid loans, credits and other debt instruments	(112 692)	(118 566)
Payments under financial lease agreements	(3 325)	(858)
Interest paid	(7 960)	(10 243)
Dividends paid	-	-
Other receipts/payments	-	-
Net cash flows from financial activity	(52 093)	(10 993)
Net cash flows from financial activity	(4 883)	9 165
Opening balance of cash and cash equivalents	22 613	30 228
Change in the classification of financed assets	-	(183)
Closing balance of cash and cash equivalents	17 730	39 210
including restricted cash	6 553	9 988

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

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The condensed interim consolidated financial statements for the period from 1 January to 30 June 2019 incorporate the financial statements of the parent company and its subsidiaries (referred to jointly as the "Capital Group").

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

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

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

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

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

Subsidiaries as at 30 June 2019

Name of the unit and registered office	Country	Share %	
		30.06.2019	31.12.2018
Elektrociepłownia BĘDZIN Sp. z o.o. ul. Małobądzka 141, Będzin	Poland	100	100
Energetyczne Towarzystwo Finansowo- Leasingowe Energo-Utech S.A. ul. Bolesława Krzywoustego 7, Poznań	Poland	100	100

Associates as at 30 June 2019

Name of the unit and registered office	Country	Share%	
		30.06.2019	31.12.2018
Energo-Biomasa Sp. z o. o. Suliszewo 97, Drawsko Pomorskie	Poland	19.99	19.99

As at the day of approving these condensed interim consolidated financial statements for issue and as at 30 June 2019, the composition of the management and supervisory bodies of the parent company was as follows:

Management Board

Krzysztof Kwiatkowski

- President of the Management Board

The Supervisory Board performed its 9th term of office in the following 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 at the Supervisory Board

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

7. Basis for the condensed interim consolidated financial statement

7.1 Statement of compliance

These condensed interim consolidated financial statements for the period from 1 January to 30 June 2019 have been produced as per the International Accounting Standard 34 "Interim financial reporting" approved by the European Union ("EU") and the Resolution of the Ministry of Finance dated 29 March 2018 (Journal of Laws from 2018, item 757) on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as being equivalent to information required by regulations of law of a state which is not a member state.

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

7.2 Basis for valuation

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

7.3 Functional and presentation currency

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

7.4 Judgements and estimates

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

In the period pertaining to these consolidated financial statements no major changes occurred affecting the applied estimate methods save for a change of treatment of financial assets risk assessment with respect to the expected credit loss under IFRS 9.

The Group evaluates whether there is objective evidence as of the balance sheet date that a loss was suffered under the impairment of individual financial assets or a group of financial assets.

The basic assumptions regarding the future and other key sources of uncertainty as of the balance sheet day that entail a major risk of a significant adjustment of the value of assets and liabilities in the next financial year are presented below.

Impairment loss of non-financial fixed assets

As of each balance sheet date, EC Będzin SA Group evaluates whether there are any objective indications of impairment of a given non-financial fixed asset. The analysis of the indications covers both the external, as well as internal factors. The Group performs an impairment test during which the recoverable value is estimated.

Financial segment

In the reporting period the methodology for estimating impairment allowances was changed in line with IFRS 9. The Group estimated the probability of the receivables being uncollectible and adjusted their value accordingly. The estimate of the allowances is based on a number of vital assumptions the future implementation of which is uncertain. The Group adopted the most appropriate, in their opinion, numbers and values, however, it cannot be ruled out that the assumptions may be implemented differently than what the Group adopted.

The table below presents the impact of the changes on the financial statements:

	Value before change in the measurement model IFRS 9	IFRS 9 impairment charge	Value recognised in financial statements
Statement of financial position			
ASSETS			
Tangible fixed assets under construction	5 004	(286)	4 718
Deferred income tax assets	927	2 230	3 157
Inventory - commodities	35 005	(2 900)	32 105
Receivables from lease agreements	235 040	(8 549)	226 491
Statement of comprehensive income			
IFRS 9 impairment charge	-	(11 735)	(11 735)
Income tax	(1 072)	2 230	1 158

With respect to a change of treatment regarding the risk assessment of financial assets versus the expected credit losses under IFRS 9, the Group is now analysing the impact the change may have had on the comparative data.

Production segment

The value in use of the energy segment generating cash flow is estimated with respect to the future cash flows. The cash flows are subsequently adjusted by a discount rate to their present value. A number of assumptions are made as part of value in use calculation.

As of 30th June 2019 an impairment test was performed for the energy segment based on the following indications:

- changes regarding the prices of raw materials, energy and, first and foremost, greenhouse gases emission allowances;
- energy prices volatility on the derivatives market;
- volatility of the market for CO2 emission allowances and its sensitivity to external factors
- increased limits for energy prices on the wholesale current market and the balancing market;
- regulatory activities aiming to curb the growth of energy prices for end customers;
- Capacity Market and the outcome of the market's auctions for 2012, 2022 and 2023 supplies;
- implementation of the Winter Package, including the emission standard;
- continued adverse market conditions from the perspective of conventional energy profitability;
- the Act on Promoting Electricity from High-Efficiency Cogeneration dated 14th December 2018 becoming effective;
- level of the risk free rate
- domestic political factors

The tests performed as of 30th June 2019 required estimating the value in use based on the future cash flows which were subsequently, with the use of a discount rate, adjusted to the present value.

8. Description of key accounting principles

In preparing these interim condensed consolidated financial statements the Group applied the same accounting principles and calculating methods as in preparing the 2018 consolidated financial statements except for the following new or amended standards and new interpretations for annual periods starting as of 1st January 2019:

- IFRS 16 „Leases” (applicable for annual periods starting as of 1st January 2019 or later),
- Amendments to IFRS 9 „Financial Instruments” – Prepayment features with a negative compensation (applicable for annual periods starting as of 1st January 2019 or later),
- Amendments to IAS 19 „Employee Benefits” – Plan amendment, curtailment or settlement (applicable for annual periods starting as of 1st January 2019 or later),
- Amendments to IAS 28 „Investments in Associates and Joint Ventures” – Long-term shares in associates and joint ventures (applicable for annual periods starting as of 1st January 2019 or later),
- Amendments to various standards „Improvements to do IFRS (cycle 2015 - 2017)” – changes made under the procedure of annual amending of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) intended chiefly to correct conflicts and clarify the wording (applicable for annual periods starting as of 1st January 2019 or later),
- Interpretation of IFRIC 23 „Uncertainty over Income Tax Treatments” (applicable for annual periods starting as of 1st January 2019 or later).

As of the date of these interim condensed consolidated financial statements the following new standards, amendments to the existing standards and a new interpretation were issued by IASB, but have not yet come into effect:

- IFRS 17 „Insurance Contracts” (applicable for annual periods starting as of 1st January 2021 or later),
- Amendments to IFRS 3 „Business Combinations” – definition of a business (applicable for combinations the date of which falls on the beginning of the first annual period starting on 1st January 2020 or later and with reference to purchasing assets on the first day of the said annual period or later),
- Amendments to IFRS 10 „Consolidated Financial Statements” and IAS 28 „Investments in Associates and Joint Ventures” – Sales or contributions of assets between an investor and its associate/joint venture and the later amendments (the date of coming into effect was postponed until research on equity method is completed),
- Amendments to IAS 1 „Presentation of Financial Statements and IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors” – Definition of Material (applicable for annual periods starting on 1st January 2020 or later),
- Amendments to references to IFRS conceptual framework (applicable for annual periods starting on 1st January 2020 or later).

The Group decided not to take the option to implement earlier the said new standards, amendments to the existing standards and interpretations.

IFRS 16 Leases – for periods beginning on 1st January 2019

The general effects of introducing IFRS 16 „Leases”

IFRS 16 introduces a new model of identifying lease contracts and their recognition in lessors' and lessees' financial statements. The Group applied IFRS 16 for the first time for the period beginning on 1st January 2019.

The new standard aims to facilitate the comparison of financial statements by presenting both operating and finance lease in the lessee's statement of financial standing and to provide the users of the financial statements with information on risk inherent in such forms of lease. Contrary to the lessee's accounting policies for leases, the new standard continues the requirements of IAS 17 for lessors.

The Group decided to apply the modified retrospective approach (with the cumulative effect of initially applying the standard in accordance with IFRS16: C5(b)). Therefore, the Group will not restate the comparative data.

IFRS 16 introduces a new definition of lease, however, the Group took advantage of a simplified method permitted in the interim period and did not review the earlier classified contracts with respect to them containing lease provisions. Therefore, the definition of lease as per IAS 17 and IFRIC 4 will hold for lease contracts concluded or amended prior to 1st January 2019.

Impact on the lessee's books

The new standard does not distinguish between finance and operating lease in the lessee's books and it requires that the right-of-use asset and the lease liability be recognised with respect to all contracts concluded by the lessee, but for short-term lease and low value assets which are exempt from this requirement. In the event IFRS 16 is applied for the first time, for lease contracts, the Group recognises the right-of-use assets and lease liabilities in the statement of financial position. The measurement methods used for the lease contracts are explained below.

Exclusions

For contracts the duration of which is up to 12 months as of 1st January 2019 and for lease contracts with respect to low-value assets (e.g. multi-functional devices) the Group decided to continue the method applied so far – straight-line recognition of lease expenses directly in the income statement.

The table below presents the scope of changes made in the statement of financial position:

Period ended on 30 June 2019	Value before implementation of IFRS 16	Change caused by implementation of IFRS 16	Value presented in financial statements
Statement of financial position			
ASSETS			
Tangible fixed assets	7 837	-	7837
LIABILITIES			
Liabilities due to credits, loans and other debt instruments	5 543	-	5543

Right-of-use assets

As of the first measurement date, the right-of-use asset was measured in the amount equal to lease liability. Following the initial recognition, the Group measures the right-of-use asset based on cost less any accumulated depreciation and adjusted for any remeasurement of the lease liability.

Scope of changes in data presentation

The table below provides the scope of changes made in the statement of financial position and the statements of comprehensive income with respect to the implementation of IFRS 16.

Period ended on 30 June 2019	Value before implementation of IFRS 16	Change caused by implementation of IFRS 16	Value presented in financial statements
Statement of financial position			
ASSETS			
Tangible fixed assets	209 172	1 828	211 000
Income tax receivables	1 156	(3)	1 153
LIABILITIES			
Retained profits	11 076	75	11 151
Long-term liabilities due to credits, loans and other debt instruments	38 287	1 665	39 952
Short-term liabilities due to credits, loans and other debt instruments	6 394	85	6 479
Statement of profit or loss			
Depreciation and amortisation	(7 642)	(12)	(7 654)
Taxes and charges	(1 890)	94	(1 796)
Financial costs	(1 554)	(4)	(1 558)
Income tax	(691)	(3)	(694)

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

9. Financial risk management

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

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

Information about the Capital Group's exposure to a given risk, objectives, principles and procedures of risk measurement and management adopted by the Capital Group along with information of capital management by the Capital Group is presented in annual consolidated financial statements for financial year 2018.

As at 30 June 2019, the short-term liabilities of the Group totalled PLN 187,137k and were PLN 7,974k up on the current assets. The surplus results mainly from the need to settle the payments and funding sources for the acquisition of shares in Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A. in 2015.

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

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

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

10. Business segments reporting

The Capital Group presents financial information with a break down into two business segments: energy segment covering production of electricity and heat both in conventional sources and through firing and

Elektrociepłownia "Będzin" S.A. Capital Group

*Condensed interim consolidated financial statements for the accounting term from 1 January to 30 June 2019
(as per IAS 34 "Interim Financial Reporting", in PLN k)*

co-firing of biomass and the financial-services segment covering renting, leasing or providing access to fixed assets in another form.

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

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

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

Operational segments period 01.01.2019 - 30.06.2019	Energy segment	Financial segment	Total
Revenues from external customers	97 218	11 916	109 134
Other operational revenues	970	809	1 779
Segment total revenues	98 188	12 725	110 913
Amortisation	(7 654)	(1 909)	(9 563)
Consumption of materials and energy	(65 537)	(84)	(65 621)
Third party services	(7 644)	(227)	(7 871)
Taxes and fees	(1 796)	(415)	(2 211)
Remuneration and employee benefits	(9 934)	(2 020)	(11 954)
Other costs by type	(187)	(605)	(792)
Value of sold goods and materials	(495)	-	(495)
Other operating costs	(302)	(270)	(572)
Impairment loss according to IFRS 9	-	(11 735)	(11 735)
Operational activity bottom line	4 639	(4 540)	99
Financial revenues	132	493	625
Financial expenses	(1 558)	(7 735)	(9 293)
Profit from share in associates measured with equity method	-	-	-
Profit before tax	3 213	(11 782)	(8 569)
Income tax	(694)	1 852	1 158
Net profit (loss)	2 519	(9 930)	(7 411)

Assets and liabilities of segments as at 30.06.2019	Energy segment	Financial segment	Total
Segment assets	247 626	338 521	586 147
Total assets	247 626	338 521	586 147
Segment liabilities	80 541	340 799	421 340
Total equity	167 085	(2 278)	164 807
Total liabilities and equity	247 626	338 521	586 147

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

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

Energy sector income due from	30.06.2019	30.06.2018
Electricity	44 871	32 014
Heat	51 556	44 771
Other	791	2 451
As at the end of period	97 218	79 236

Financial sector income due from	30.06.2019	30.06.2018
Lease, rental	9 622	12 281
Interest on loans, factoring granted	1 401	1 617
Other	893	714
As at the end of period	11 916	14 612

The provisions of IFRS 15 „Revenues from Contracts with Customers” pertain to the revenue generated by the Group in the energy segment and which amounts to PLN 97,218 as of 30th June 2019.

The activity of the energy segment is characterised by credit risk concentration – the majority of sales revenue is generated from the sale of products to the entities of the Group of Tauron Polska Energia S.A.

Profitability of the heat sale activity is impacted by lower profitability of assets during summertime resulting from lower heat demand.

11. Income tax

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018
	unexamined	unexamined
Income tax recognised in profit or loss of the current period		
Income tax recognised in profit or loss of the current period		
Income tax for the reporting period	(2 267)	(961)
	<u>(2 267)</u>	<u>(961)</u>
Income tax (deferred part)		
Creation / reversal of temporary differences	3 425	(78)
	<u>3 425</u>	<u>(78)</u>
Income tax	1 158	(1 039)
	30.06.2019	30.06.2018
	unexamined	unexamined
Income tax recognised in other comprehensive income		
Actuarial gains (losses) for defined benefit plans	5	(8)
Income tax recognised in other comprehensive income	5	(8)
	30.06.2019	30.06.2018
	unexamined	unexamined
Reconciliation of the effective tax rate		
Net profit for the reporting period	(7 411)	4 936
Income tax	1 072	1 039
Profit before tax	<u>(6 339)</u>	<u>5 975</u>
Tax based on the current tax rate of 19%.	1 595	(895)
Tax effect of revenues permanently not considered as revenues according to tax regulations	1 596	319
Tax effect of costs permanently not considered as tax deductible costs according to tax regulations	(2 033)	(463)
Income tax	1 158	(1 039)
Effective interest rate	18%	17%

12. Tangible fixed assets

Elektrociepłownia "Będzin" S.A. Capital Group

*Condensed interim consolidated financial statements for the accounting term from 1 January to 30 June 2019
(as per IAS 34 "Interim Financial Reporting", in PLN k)*

	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 01.01.2018	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
Gross value as at 01.01.2019	76 534	214 552	38 007	1 570	(1 628)	326 910
Purchase	1 980	115	1 017	10	509	3 631
Sale	-	(36)	(5 356)	(5)	-	(5 397)
Liquidation	-	(176)	-	(1)	-	(177)
Impairment loss according to IFRS 9	-	-	-	-	(286)	(286)
Settlement/change of classification	-	-	(155)	-	6 123	5 968
Gross value as at 30.06.2019	78 514	214 455	33 513	1 574	4 718	330 649
Depreciation and impairment charges						
Depreciation and impairment charges as at 01.01.2018	10 281	45 623	15 744	819	-	72 467
Amortisation/Depreciation	3 050	11 977	3 185	258	-	18 470
Sale	-	(2 116)	(254)	-	-	(2 370)
Settlement / reclassification	-	(141)	(3)	-	-	(144)
Liquidation	-	(50)	-	-	-	(50)
Depreciation and impairment charges as at 31.12.2019	13 331	55 293	18 672	1 077	-	88 373
Depreciation and impairment charges as at 01.01.2019	13 331	55 293	18 672	1 077	-	88 373
Amortisation/Depreciation	1 516	6 054	1 593	94	-	9 257
Sale	-	(36)	(2 156)	(4)	-	(2 196)
Liquidation	-	(176)	-	(1)	-	(177)
Settlement / reclassification	-	-	-	-	-	-
Depreciation and impairment charges as at 30.06.2019	14 847	61 135	18 109	1 166	-	95 257
Net value						
01.01.2018	63 070	152 867	22 582	541	12 090	251 643
31.12.2018	63 203	159 259	19 335	493	(1 628)	238 537
01.01.2019	63 203	159 259	19 335	493	(1 628)	238 537
30.06.2019	63 667	153 320	15 404	408	4 718	235 392

As of the end of the current period, the Group performed an impairment test for operating assets in the energy segment in respect of a material increase of prices of CO2 emission allowances.

Estimated projections for future cash flows were prepared based on detailed financial projections for the years 2019-2027. The final value was estimated by extrapolating the projection of free cash flow beyond the plan timelines with the use of a growth rate adequate for a given centre. The measurement uses an average weighed capital cost in the amount of 7.48%. The value in use of the energy segment as of the test date, i.e. 30th June 2019 was PLN 231,680k.

The estimated recoverable value did not require any impairment allowances.

The analysis of indications pertains to both external and internal factors.

During the impairment test the Group estimates the recoverable value.

The recoverable value for the energy segment corresponds to the higher of the following two: fair value less sale costs or value in use. If the carrying value of the energy segment is higher than its recoverable value, then impairment occurs and an impairment allowance is made to adjust to the defined recoverable value.

Key test assumptions:

- planned average annual inflation in the years 2020 – 2027 is 2.5%;
- the price of heat as per the applicable tariff and its changes as of September each year; it was assumed that the heat price would rise by 6.9% in 2019, by 10% in 2020, by 5% in 2021 and by 3.75% in 2022, 2023, 2024 and 2025. Starting 2016, it will be inflation-based (2.5%);

The abovementioned is a consequence of a unit in the energy sector being a cogeneration unit and calculating heat tariff based on the so-called simplified method, i.e. pursuant to § 13.1 of the Ordinance of the Ministry of Energy „On detailed principles of developing and calculating tariffs and settlements in respect of heat supply”. Simply put, the method consists in the growth of heat price being conditioned on the growth of heat price for non-cogeneration sources in the year preceding the year relevant for the tariff, there being an option of increasing the growth by a defined index. The 2018 price index as announced by the President of the Energy Regulatory Office for non-cogeneration sources generating heat from carbon fuel was 5.65%. As the index can be increased by 1.25%, we assume price increase by 6.9% as of September 2019.

Given the present market conditions for the prices of coal and CO₂, which is, the basic cost drivers in energy companies, it was assumed that the 2019 price of heat from non-cogeneration sources would rise by approx. 9%, in 2020 – approx. 4%, starting 2021 the rise will be inflation-based. Respective heat price rises were scheduled with respect to the statutory right to increase price growth.

- a stable level for coal prices was assumed for the years to come as long-term contracts for coal supply were signed and as the analyses of international organisations show that in the long-term perspective the prices of coal will be slightly declining worldwide as a result of implementing the climate policy and more countries moving from coal combustion to rely on RES;

- a curve for electrical energy prices was adopted for the projection period based on, inter alia, the impact of supply and demand balance on the electrical energy on the market, cost of fuels, cost of greenhouse gases emission allowances, political factors on the domestic level;

- the mechanism of operating power reserve was scheduled to apply until the end of 2020, which is, until the Capacity Market is in place;

- the implementation of the Capacity Market mechanism pursuant to the adopted and notified Act on the Capacity Market and the Rules of the Capacity Market was taken into account;

- revenues from the capacity market were accounted for in the amount of PLN 13.2m in 2021, PLN 10.9m in 2022 (based on auction results). For the subsequent years of the capacity market the last auction revenues came as the benchmark. The capacity market related costs were scheduled at 15% of the revenues;

- the limits for greenhouse gases emission in heat generation were based on the respective ordinance of the Council of Ministers;

- an upward price curve for the allowances for greenhouse gases emission throughout the projection; the purchase of emission allowances in 2020 was scheduled at EUR 26/Mg, the price resulting from the present market quotations and the price forecast by Reuters. For the subsequent years, the price is inflation-based;

- pursuant to the ammended Energy Law and certain other acts, the existing cogeneration support system for 2018 will be settled 30th June 2019; no support for combined heat and power generation taken into account;

- sale volumes assumed at the average level to date. Segment generating capacity, market competition, weather conditions, etc. were taken into account;

- production capacity of the existing fixed assets was continued as a result of necessary replacement investments;

- WACC at the level of 7.45% throughout the projection was taken into account based on a risk free rate corresponding to the yield of 10Y bonds of the State Treasury (at 2.37%) and the energy industry specific risk premium (5.5%). The growth rate for extrapolating cash flow projections beyond the detailed planning period was assumed at 2.5% and it corresponds to the long-term inflation rate.

Sensitivity analysis results for energy segment showed that the greatest impact on the value in use of the tested assets comes from, particularly, the projected electrical energy prices, prices of allowances for greenhouse gases emission, coal prices and the adopted discount rates.

The table below presents the estimated changes of goodwill in the energy segment as a result of changes affecting the forecast's key/most significant assumptions.

Elektrociepłownia "Będzin" S.A. Capital Group

*Condensed interim consolidated financial statements for the accounting term from 1 January to 30 June 2019
(as per IAS 34 "Interim Financial Reporting", in PLN k)*

Parameter	Change	Impact on the company's value (in PLN thousand)	
		Increases	Decreases
electricity price change over the forecast period	1%	19 115	-
	-1%	-	19 115
change in prices of greenhouse gas emission allowances during the	1%	-	10 833
	-1%	10 833	-
hard coal price change over the forecast period	1%	-	12 222
	-1%	12 222	-
WACC change	1%	-	3 863
	-1%	3 862	-

13. Intangible assets

Gross value of intangibles	Patents, licences, software	Other intangible assets	Total
Gross value as at 01.01.2018	1 031	5 512	6 543
Acquisition	97	-	97
Settlement/change of classification	(21)	-	(21)
Sale	(220)	-	(220)
Liquidation	-	-	-
Purchase as part of the acquisition of business entities	-	-	-
Gross value as at 31.12.2018	887	5 512	6 399
Gross value as at 01.01.2019	887	5 512	6 399
Acquisition	565	-	565
Settlement/change of classification	-	-	-
Gross value as at 30.06.2019	1 452	5 512	6 964
Amortisation and impairment charges	Patents, licences, software	Other intangible assets	Total
Amortisation and impairment charges as at 01.01.2018	841	1 515	2 356
Amortisation/Depreciation	190	551	741
Sale	(220)	-	(220)
Liquidation	-	-	-
Change of classification	(8)	-	(8)
Amortisation and impairment charges as at 31.12.2018	803	2 066	2 869
Amortisation and impairment charges as at 01.01.2019	803	2 066	2 869
Amortisation/Depreciation	30	276	306
Settlement/change of classification	-	-	-
Amortisation and impairment charges as at 30.06.2019	833	2 342	3 175
Net value			
01.01.2018	190	3 997	4 187
31.12.2018	84	3 446	3 530
01.01.2019	84	3 446	3 530
30.06.2019	619	3 170	3 789

The other intangible assets pertain to the relations with clients of Energetyczne Towarzystwo Finansowo-Leasingowe Energo- Utech S.A

14. Impairment charges on receivables from leasing agreements

	30.06.2019	31.12.2018
Change in balance of impairment charges on leasing agreements		
Opening balance	(990)	(1 086)
Impairment loss according to IFRS 9	(8 549)	-
Increases	-	(1 701)
Cancellations	-	928
Utilised	-	869
Closing balance	(9 539)	(990)

15. Impairment charges on receivables from loan agreements

	30.06.2019	31.12.2018
Change in balance of impairment charges on loans		
Opening balance	-	(539)
Utilised	-	139
Increases	-	-
Cancellations	-	400
Closing balance	-	-

16. Revenues

Inventories	30.06.2019	31.12.2018
Goods	32 105	-
Materials	7 426	7 584
Energy certificates	19	2 195
CO2 emission allowances	9 101	19 484
	48 651	29 263

Energy certificates	30.06.2019	31.12.2018
Opening balance	2 195	1 256
Generation	-	1 881
Sale	(2 173)	(1 724)
Cancellation	(3)	(5)
Impairment charge	-	787
Closing balance	19	2 195

CO2 emission allowances	30.06.2019	31.12.2018
Opening balance	19 484	13 952
Purchase	29 995	14 773
Received (free of charge allocation)	5 889	3 643
Cancellation (as per annual emission)	(46 267)	(12 884)
Closing balance	9 101	19 484

Materials	30.06.2019	31.12.2018
Opening balance	8 198	8 262
Impairment charge	(772)	(678)
Closing balance	7 426	7 584

Goods	30.06.2019	31.12.2018
Opening balance	35 005	-
Impairment loss according to IFRS 9	(2 900)	-
Closing balance	32 105	-

The rise in goods value arises from the disclosure of the value of leased assets from the terminated lease contracts.

Elektrociepłownia "Będzin" S.A. Capital Group

*Condensed interim consolidated financial statements for the accounting term from 1 January to 30 June 2019
(as per IAS 34 "Interim Financial Reporting", in PLN k)*

17. Equity

	30.06.2019	31.12.2018
Opening number of shares	3 149 200	3 149 200
Closing number of shares (fully paid up)	3 149 200	3 149 200

Equity as at	30.06.2019	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				(417)
Retained profits				15 040
Total equity				164 807

Equity as at	31.12.2018	Number of shares	Nominal value of single share (in PLN)	Reporting value (in PLNk)
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

Ownership structure of share capital as at 30.06.2019

Shareholder	Number of shares	Nominal value of shares	Shareholding (%)
Krzysztof Kwiatkowski	1 034 499	5 172	32,85%
VALUE FIZ subfundusz 1	334 747	1 674	10,63%
Bank Gospodarstwa Krajowego	311 355	1 557	9,89%
Familiar S.A. SICAV - SIR	271 526	1 358	8,62%
Waldenar Organista	153 146	766	4,86%
Zolkiewicz&Partners Inwestycji w Wartość FIZ	156 488	782	4,97%
State Treasury	157 466	787	5,00%
Other shareholders	729 973	3 650	23,18%
	3 149 200	15 746	100,00%

Dividends

During 6 months 2019, the dominant entity did not pay any dividend.

18. Profit per share

	30.06.2019	30.06.2018
Opening number of shares	3 149 200	3 149 200
Closing number of shares	3 149 200	3 149 200
Average weighted number of issued shares	3 149 200	3 149 200

	30.06.2019	30.06.2018
Net profit distributed amongst shareholders of dominant entity (in PLN k)	(7 411)	4 936
Number of shares	3 149 200	3 149 200
Main profit per share (PLN/share)	(2,4)	1,6

19. Employee benefits

Change in current value of liabilities under defined benefits	01.01.2019 - 30.06.2019	01.01.2018 - 31.12.2018
Opening balance of liabilities under defined benefits	4 584	4 580
Increases as part of acquisition of business entities	-	-
Current employment cost	63	118
Increases as part of acquisition of business entities	-	-
Interest cost	55	123
Defined benefits plan revaluation reserve recognized in other comprehensive income	29	331
Future employment cost	-	-
Plan limitation/ liquidation	-	-
Benefits paid	(91)	(568)
Closing balance of liabilities under defined benefits	4 640	4 584

Change in current value of liabilities under defined benefits	01.01.2019 - 30.06.2019	01.01.2018 - 31.12.2018
Opening balance of liabilities under defined benefits	4 638	9 479
Increases as part of acquisition of business entities	-	-
Current employment cost	1 581	3 578
Liabilities taken over as part of the acquisition of business entities	-	-
Interest cost	40	94
Defined benefits plan revaluation reserve recognized in other comprehensive income	-	141
Benefits paid	(2 329)	(4 783)
Released	(217)	(3 871)
Closing balance of liabilities under defined benefits	3 713	4 638

Change in balance of liabilities under employee benefits	Service anniversary awards	Retirement and disability severance payments	Other liabilities	Total
As at 01.01.2019	2 741	3 619	2 862	9 222
Raised	182	108	1 429	1 719
Utilised	(197)	(90)	(2 133)	(2 420)
Released	20	-	(217)	(197)
Revaluation of provisions recognized in other comprehensive income	-	19	10	29
As at 30.06.2019	2 746	3 656	1 951	8 353
- long-term provisions	2 502	2 801	407	5 710
- short-term provisions	244	855	1 544	2 643

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

Liabilities from defined benefits comprise: retirement, disability severance payments, death allowances, Employee Benefit Fund provisions. The legal basis for the above said provisions is IAS 19, rules of remuneration and the Labour Code.

20. Provisions

Provisions	Provision for CO2 emission allowance	Other provisions	Total
Value at 01.01.2019	46 306	242	46 548
Raised	29 592	-	29 592
Taken over as part of the acquisition of business entities	-	-	-
Utilised	(46 306)	(200)	(46 506)
Change of classification	-	-	-
Value at 30.06.2019	29 592	42	29 634
- short-term	29 592	42	29 634

21. Fair value of financial instruments

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

	Current value	Fair value	Hierarchy level
As at 30.06.2019			
Financial instruments measured at fair value through profit or loss			
Loans and receivables, including	289 964	289 665	
<i>leasing agreements</i>	226 491	226 192	3
<i>granted loans</i>	36 551	36 551	3
<i>trade receivables and other</i>	9 192	9 192	3
<i>cash and cash equivalents</i>	17 730	17 730	3
Other financial liabilities, including	(374 974)	(374 633)	
<i>liabilities under loans and credits</i>	(344 788)	(344 447)	3
<i>trade liabilities and other</i>	(30 186)	(30 186)	3
	(85 010)	(84 968)	-

	Current value	Fair value	Hierarchy level
As at 31.12.2018			
Financial instruments measured at fair value through profit or loss			
Loans and receivables, including:	384 916	384 505	
<i>leasing agreements</i>	289 230	288 819	3
<i>granted loans</i>	49 111	49 111	3
<i>trade receivables and other</i>	23 962	23 962	3
<i>cash and cash equivalents</i>	22 613	22 613	3
Other financial liabilities including	(426 060)	(425 618)	
<i>liabilities under loans and credits</i>	(384 532)	(384 090)	3
<i>trade liabilities and other</i>	(41 528)	(41 528)	3
	(41 144)	(41 113)	-

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

There are no such liabilities.

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

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

There is no seasonal effect in the financial segment.

24. Conditional liabilities and proceedings pending before court

No material changes took place versus 31st December 2018.

25. Property collateral

No material changes took place versus 31st December 2018.

26. Dividend received

On 10th April and 23rd May 2019 the Parent Entity received a dividend from its subsidiary Elektrociepłownia BĘDZIN sp. z o.o. in the amount of PLN 15,000k.

This dividend was used to redeem bonds in the amount of PLN 13,300k.

In the reporting period the Group did not pay out the dividend.

27. Transactions with connected entities

Transactions with persons holding managerial or supervisory positions

During the reporting period ending on 30 June 2019, no advances, loans, credits, guarantees or other liability-raising agreements.

Remuneration of persons holding key managerial or supervisory positions

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

	30.06.2019	30.06.2018
Short-term employee benefits	260	616
	260	616

As at 30.06.2019	Receivables	Liabilities
MDW Glanowski		10 782
Energo Biomasa sp. z o. o.	4 883	-
Autodirect S.A.	702	-
Power Engineering S.A.		-
	5 585	10 782

Period 01.01.2019- 30.06.2019	Sales of products	Other income
Energo Biomasa sp. z o. o.	46	-
Autodirect S.A.	10	-
Power Engineering S.A.		-
	56	-

Period 01.01.2019- 30.06.2019	Purchase of services	Other purchase
MDW Glanowski	267	-
	267	-

28. Events after the balance sheet date

No material events took place in the Group past the balance sheet date.

29. Manpower

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

	30.06.2019	31.12.2018
Production staff	89	90
Office staff	79	75
	<u>168</u>	<u>165</u>

30. Information of a failure to repay a credit or a loan or on a breach of material provisions of a credit or a loan agreement.

The Group does not have any due and payable and unpaid credits or loans.

In the reporting period a credit agreement was breached with respect to the dividend payout by Elektrociepłownia Będzin Sp. z o.o. on 9th April 2019. Since the date of the breach, the credit interest has been higher by 2.0 p.p. per annum. Additionally, a security deposit was placed with the bank in the amount of three credit installments including interest.

31. Approval of consolidated financial statements

These condensed interim consolidated financial statements were produced and approved for publication by the Management Board of the dominant entity on 30 September 2019.

Poznań, 30 September 2019

**Statement of the Management Board of Elektrociepłownia "Będzin" S.A.
on the reliability of the preparation of the condensed interim consolidated
financial statements of Elektrociepłownia "Będzin" S.A. Capital Group
for the period from 1 January 2019 to 30 June 2019**

The Management Board of Elektrociepłownia „Będzin” S.A. hereby declares that to its best knowledge – the condensed interim consolidated financial statements for the period from 1 of January 2019 to 30 June 2019 and the comparable data, have been prepared in accordance with the applicable accounting policies, and that they reflect in a true, reliable and transparent manner, the financial standing and the financial result of Elektrociepłownia „Będzin” S.A.

The report of the Management Board of Elektrociepłownia „Będzin” S.A. on the Company's operations for the first half of the year 2019 includes a true description, including the description of the risks associated with the next financial year.

Krzysztof Kwiatkowski - President of the Management Board

September 2019

Management Board Report
on the activity of
Elektrociepłownia "Będzin" S.A.
Capital Group in H1 2019

Elektrociepłownia "Będzin" S.A.
Capital Group



CONTENT	
INTRODUCTION	3
I. ESSENTIAL INFORMATION ABOUT ELEKTROCIEPŁOWNIA „BĘDZIN” CAPITAL GROUP S.A. 3	
1. Description of organisation and structure of the Capital Group	3
2. Changes in the organisation of the Capital Group	4
II. COMPOSITION OF THE MANAGING AND SUPERVISING BODIES OF THE CAPITAL GROUP 5	
2. Authorities of subsidiaries	56
3. Main shareholders of the dominant entity	6
4. Shareholding of persons holding managerial and supervisory positions	6
5. Shareholders structure	7
III. INFORMATION ABOUT MAIN PRODUCTS.....	7
IV. LOANS.....	8
V. MAJOR COURT CASES	9
VI. OTHER INFORMATION	9
1. Information about transactions made with connected entities	9
2. Information about bonds and warranties	9
3. Promotion - advertising activity	9
4. Factors which in the opinion of the Dominant Entity will impact the performance in the future reporting periods	10
VII. ASSESSMENT OF THE FINANCIAL RESOURCE MANAGEMENT	10
VIII. INVESTMENT ACTIVITY	1011
1. Acquisition of securities	<u>Błąd! Nie zdefiniowano zakładki.</u> 11
2. The Capital Group's investments in the production infrastructure	<u>Błąd! Nie zdefiniowano zakładki.</u> 11
3. Repair activity of the Group	1112
4. Characteristics of external and internal factors significant to the development of the Capital Group.....	1112
IX. NATURAL ENVIRONMENT PROTECTION	1715
1. Emission of pollution to the atmosphere	1715
2. Integrated permit	1715
3. Trade in emission allowances	1815
4. Environment protection audits.....	1815
X. STAFFING AND PAYROLL IN ELEKTROCIEPŁOWNIA BĘDZIN S.A. GROUP	1815

INTRODUCTION

The Management Board of Elektrociepłownia Będzin S.A. hereby presents the Management Board Report on Elektrociepłownia "Będzin" S.A. Group Activity for the 1st half of the accounting year 2019. The Report was prepared on the basis of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2018.757, standardised text).

Principles of preparing the financial statements for the 1st half of the year 2019, are included in the explanatory notes to the condensed consolidated interim financial statements produced in accordance with IAS 34 "Interim Financial Reporting".

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

1. Description of organisation and structure of the Capital Group

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

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

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

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

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

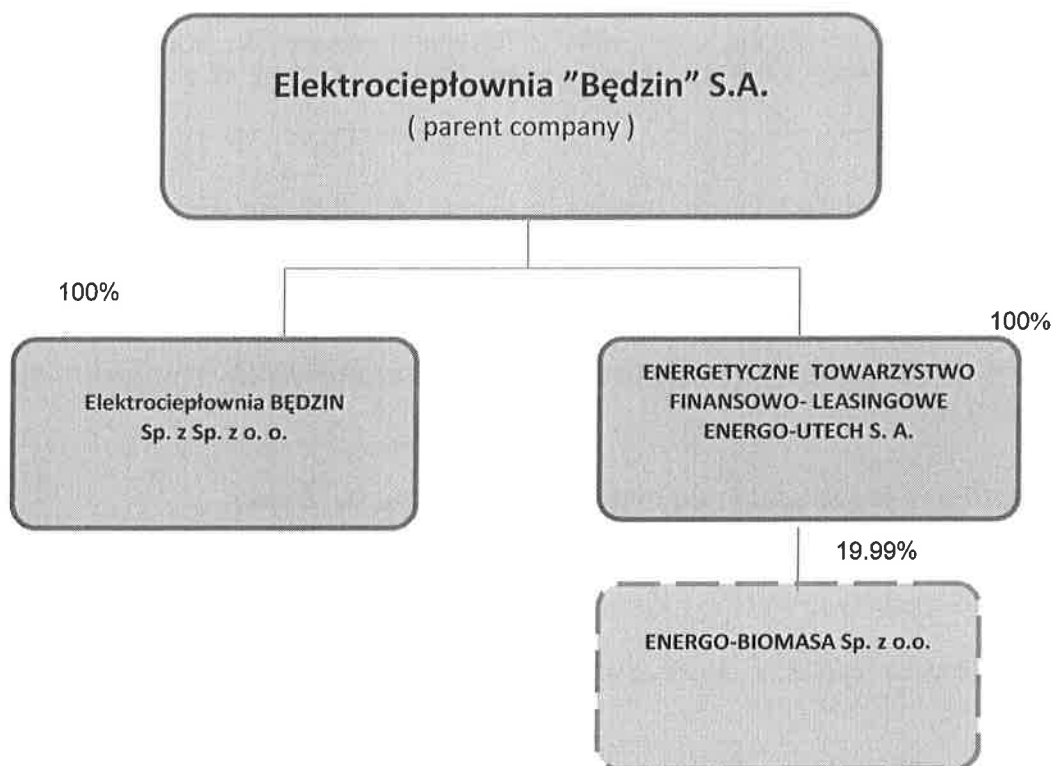
The activity of Energo-Biomasa Sp. z o.o. involves production of pellets.

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

Elektrociepłownia "Będzin" S.A. Group consolidates the following entities:

a/ full consolidation method – Elektrociepłownia BĘDZIN Sp. z o.o. and Energetyczne Towarzystwo Finansowo – Leasingowe S.A.,

b/ ownership rights method – Energo-Biomasa Sp. z o. o. (the company is co-controlled).



2. Changes in the organisation of the Capital Group

Between 1 January 2019 and 30 June 2019, there were no changes in the organisation of Elektrociepłownia „Będzin” S.A. Capital Group.

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

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

Management Board

In H1 2019, Elektrociepłownia "Będzin" S.A. has been managed by the Management Board of the ninth term of office, composed of the following sole member:
Krzysztof Kwiatkowski - President of the Management Board

Supervisory Board

From 1 January to 30 June 2019, the Supervisory Board of the ninth term of office was composed of the following individuals:

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

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

Audit Committee

From 1 January 2019 to 30 June 2019, the composition of the Audit Committee was as follows:

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

2. Authorities of subsidiaries

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

As at 30 June 2019, the Management Board of Elektrociepłownia BĘDZIN Sp. z o. o. was composed of the following individuals:

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

Composition of the Management Board did not change during the reported period.

On 13 August 2019, the Extraordinary General Meeting of Shareholders of Elektrociepłownia BĘDZIN Sp. z o.o. adopted Resolution No. 1/2019 on recalling Mr Marek Mrówczyński from the Management Board of Elektrociepłownia BĘDZIN Sp. z o.o. with the registered office in Będzin and from his position of President of the Management Board of the said company, effective as of 30 September 2019.

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

As at 30 June 2019, the Management Board of Energetyczne Towarzystwo Finansowo - Leasingowe Energo-Utech S.A. was composed of the following individuals:

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

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

As at 30 June 2019, the Management Board of ENERGO BIOMASA Sp. z o. o. was composed of the following individuals:

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

3. Main shareholders of the dominant entity

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

Specification	As at 30 May 2019**				As at 30 September 2019***				Change	
	shares	votes	shares [%]	votes [%]	shares	votes	shares [%]	votes [%]	purchase	sales
Krzysztof Kwiatkowski*	1 033 499	1 033 499	32,82	32,82	1 034 499	1 034 499	32,85	32,85	1 000	-
VALUE Fundusz Inwestycyjny Zamknięty z wydzielonym Subfunduszem 1	334 747	334 747	10,63	10,63	334 747	334 747	10,63	10,63	-	-
Bank Gospodarstwa Krajowego	311 355	311 355	9,89	9,89	311 355	311 355	9,89	9,89	-	-
Familiar S.A. SICAV - SIR	271 526	271 526	8,62	8,62	271 526	271 526	8,62	8,62	-	-
Waldemar Organista	173 146	173 146	5,50	5,50	153 146	153 146	4,86	4,86	-	20 000
Zolkiewicz & Partners Inwestycji w Wartość FIZ	157 740	157 740	5,01	5,01	156 488	156 488	4,97	4,97	-	1 252
State Treasury	157 466	157 466	5,00	5,00	157 466	157 466	5,00	5,00	-	-
Summary	2 439 479	2 439 479	77,46	77,46	2 419 227	2 419 227	76,82	76,82	1 000	21 252

* Together with subsidiaries.

** Information as at the date of publishing the interim statement for Q1 2019.

*** Information as at the date of publishing the interim statement for H1 2019.

4. Shareholding of persons holding managerial and supervisory positions

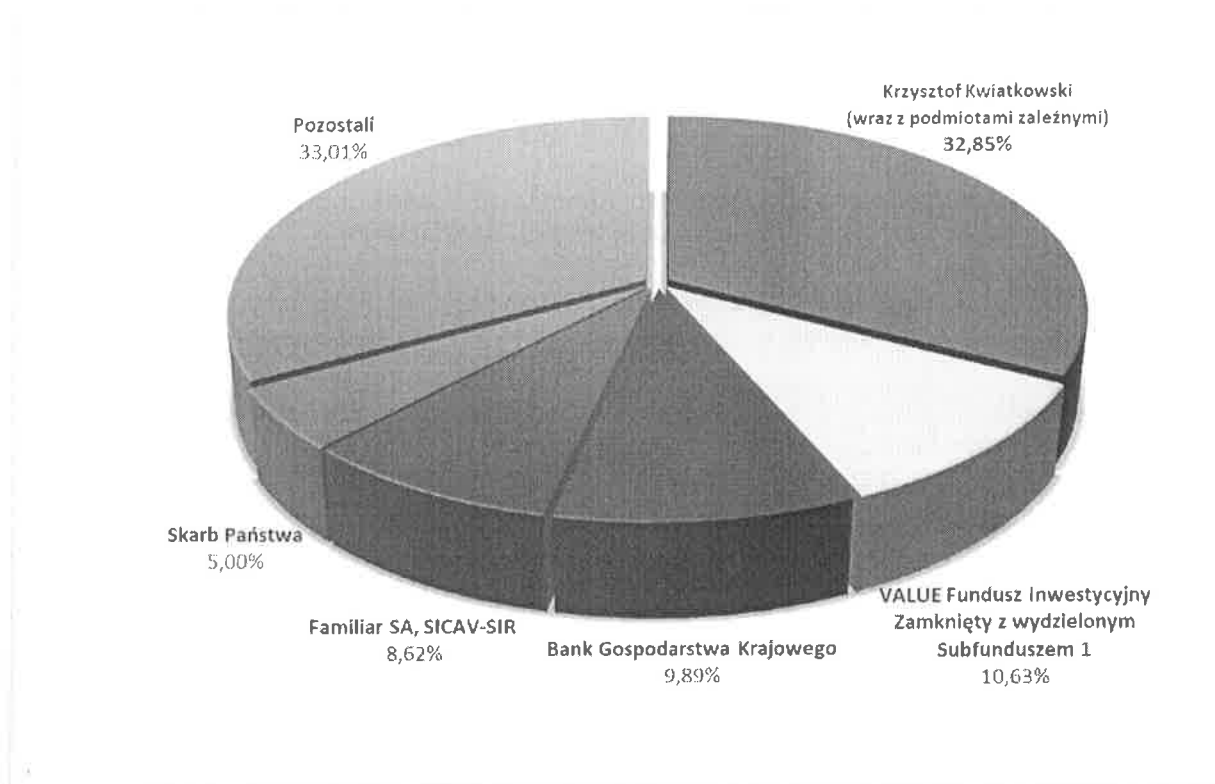
Specification	As at 30 May 2019 **				As at 30 September 2019 ***				Change	
	shares	votes	shares [%]	votes [%]	shares	votes	shares [%]	votes [%]	purchase	sales
Krzysztof Kwiatkowski*	1 033 499	1 033 499	32,82	32,82	1 034 499	1 034 499	32,85	32,85	1 000	-
Waldemar Organista	173 146	173 146	5,50	5,50	153 146	153 146	4,86	4,86	-	20 000
Summary	1 206 645	1 206 645	38,32	38,32	1 187 645	1 187 645	37,71	37,71	1 000	20 000

* Together with subsidiaries.

** Information as at the date of publishing the interim statement for Q1 2019.

*** Information as at the date of publishing the interim statement for H1 2019.

5. Shareholders structure



As at 30 September 2019

III. INFORMATION ABOUT MAIN PRODUCTS

Products generated and manufactured by the Capital Group include heat and electricity.

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

The production structure of the Capital Group in H1 2019 versus H1 2018 was as follows:

Production	Unit	30.06.2019	30.06.2018
Heat in water	GJ	1 435 715	1 201 869
Heat in steam	GJ	158 797	141 415
Electric power	MWh	237 013	201 467

The quantitative heat and electric power sale of the Capital Group in H1 2019 versus H1 2018 was as follows:

Sale	Unit	30.06.2019	30.06.2018
Heat	GJ	1 450 091	1 204 405
Electric Power from own production	MWh	198 526	166 974

Income from the sale of heat and electric power of the Capital Group in H1 2019 versus H1

2018 was as follows:

Income from sale in PLN k	H1 2019	H1 2018
Heat	51 556	44 771
Electric power	44 871	32 014

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

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

Revenues(in PLN k)	H1 2019	H1 2018
Revenues from leasing services	9 348	10 960
Revenues from factoring services	688	924
Revenues from rental services	2 001	2 365
Revenues from loans provided	257	260
Other revenues	457	434
Total	12 751	14 943

IV. LOANS

In H1 2019, Elektrociepłownia "Będzin" S.A. as the dominant entity recorded one loan granted by ING Bank Śląski S.A. under Agreement no. 682/2016/00008628/00 on corporate PLN loan for financing an investment and refinancing of incurred capital expenditures of PLN 21 640k (say: twenty one million six hundred forty thousand Polish zloty 00/100).

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

As at 30 June 2019, Elektrociepłownia BĘDZIN Sp. z o.o. has a debt due from the Leasing Agreement of 22 December 2014 with Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. regarding flue gas desulphurisation installation for boilers: OP-140 no. 6, OP-140 no. 7 and WZP-70 no. 5 admitted for use on 30 November 2017, flue gas denitrogenation installation for boiler: OP 140 no. 7, 30 October 2017 flue gas denitrogenation installation for boiler: OP 140 no. 6 and flue gas denitrogenation installation for boiler: WP-70 no. 5 on 27 March 2018, with the total value of the leased asset of PLN 44,601k .

In relation to the foregoing Agreement, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. is a party to loan agreement on financing the investments of Elektrociepłownia BĘDZIN Sp. z o.o. of 16 December 2014 signed with Bank Polska Kasa Opieki S.A. The Agreement is for term loan of up to PLN 94,491.83k. The term loan maturity date has been scheduled for 30 June 2026.

In H1 2019, Elektrociepłownia BĘDZIN Sp. z o.o. did not record any bank loans and credits.

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

V. MAJOR COURT CASES

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

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

No court cases, either filed by or against Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A. (subsidiary) are pending.

VI. OTHER INFORMATION

1. Information about transactions made with connected entities

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

2. Information about bonds and warranties

In the period from 1 January 2019 to 30 June 2019, Elektrociepłownia "Będzin" S.A. granted, without any fees, bill of exchange guarantees to secure loans granted to its subsidiary Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A., said loans raised to finance the subsidiary’s business activity and granted by mBank S.A. – investment loan of PLN 6,612,000.- (financing Biogazownia Przybroda Sp. z o.o. project) for the term by 28.06.2024 and by SGB Poznański Bank Spółdzielczy – working capital loans up to PLN 1,300,000.- by 28.02.2022.

In the period covered by the report, the subsidiaries did not grant any sureties or guarantees, as other securities were applied.

3. Promotion - advertising activity

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

In H1 2019, Elektrociepłownia BĘDZIN Sp. z o.o. acted as the sponsor and patron of various cultural and scientific events, mostly on the local market.

Similarly to previous years, the company was involved in the activities of the *Museum of the Coal Basin Area* in Będzin and the Sosnowiec Museum. The Company is also one of the sponsors of Tychy Sport and actively participates in projects organized by the District Chamber of Commerce and Industry in Tychy.

Elektrociepłownia BĘDZIN Sp. z o.o. supports sports initiatives and a healthy lifestyle by engaging in numerous sports activities.

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

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

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

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

VII. ASSESSMENT OF THE FINANCIAL RESOURCE MANAGEMENT

Financial performance of the Capital Group

Financial performance	Unit	Period	
		I-VI 2019 PLN k	I-VI 2018 PLN k
EBITDA*	PLN k	9 662	23 094
Profit on operating activity	PLN k	99	13 323
Profit/loss on financial activity	PLN k	-8 668	-6 843
Profit before tax	PLN k	-8 569	5 975
Income tax	PLN k	1 158	1 039
Profit after tax	PLN k	-7 411	4 936

*EBITDA = profit on operating activity + amortisation

The EBITDA value of the Capital Group for the first half of 2019 in comparison with the value for the same period of the previous year significantly decreased due to the write-down of financial assets for the total amount of PLN 11.735k. In the current period, the Capital Group modified the estimation of write-downs in accordance with IFRS 9.

In H1 2019, the Capital Group generated net loss of PLN 7411k.

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

VIII. INVESTMENT ACTIVITY

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

The Subsidiary - Elektrociepłownia BĘDZIN Sp. z o.o – carries out investments enabling compliance with environmental regulations and facilitating growth in the electric power production output. In H1 2019, the Company performed investment tasks for the amount of PLN 420.63k. The delivery of the assumed investment tasks brought the expected technical, economic and environmental effects, including:

- replacement of fixed assets,

- optimisation of manufacturing costs,
- meeting the requirements of occupational health and safety regulations, environmental protection regulations and fire protection regulations.

The final acceptance by the company and handover of the project entitled: "Securing boiler house K5 - K7 against low temperatures in the winter period after demolition of boilers WP-120 no. 8 and 9" took place on 27 March 2019.

The final acceptance by the company and handover of the project entitled: "Installation and replacement of air conditioners" took place on 19 April 2019.

Elektrociepłownia BĘDZIN Sp. z o.o. (the subsidiary) plans to carry out the following investment projects in H2 2019:

- replacement of PC4 cooling water pump (under construction),
- computers and equipment,
- software,
- office equipment,
- technical equipment,
- purchase of laboratory equipment,
- modernisation of teletechnical network and teletechnical equipment

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

2. Repair activity of the Capital Group

In H1 2019, in Elektrownia BĘDZIN Sp. Zo.o. the value of repair activity totalled PLN 4 206 k, which represents 40% of the planned annual repair costs.

In Q1, the Company focused mainly on regular and periodical repairs of equipment. The regular repair of the turbine set 13UCK80 with a capacity of 81.5 MW was carried out in Q1. As part of the regular repair, the OP-140 boiler No. 7 was repaired and the renovation of OP-140 boiler No. 6 was commenced to ensure their availability in the next heating season. In H1 2019, the repair works were carried out in accordance with the schedule.

The planned scope of repairs in H2 2019 includes mainly regular renovation of boiler WP-70 No. 5 and repairs of core production equipment directly involved in the process of generating electricity and heat - completion of the repair of boiler OP-140 No. 6 and necessary renovation works on other power-generating equipment and installations, as well as, buildings and structures.

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

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

Business activity environment

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 indicators

The business and financial standing and economic activity of Elektrociepłownia "Będzin" S.A. Group are affected by factors characterising the general condition of the national economy, as well as, the economic situation of the areas in which the individual companies of the Group operate. Among all macroeconomic indicators, the following ones have a dominant influence: GDP, value added in industry, domestic demand, gross fixed capital formation, sold production, inflation, average gross nominal remuneration in the enterprise sector, unemployment rate, trade balance and domestic electricity consumption.

Political factors

Due to the strategic nature of the energy sector, its operations may be affected by political decisions, both at national and European Union level. The decisions taken may concern both the directions of energy policy and detailed legal solutions and affect, among other things, the prices of electricity.

Legal and regulatory environment.

The Group's operations in the energy sector are conducted in an environment subject to specific legal regulations, whether at the national or European Union level. Legal regulations are often the result of political decisions, hence the risk of frequent changes in this area, which the Group is not able to predict.

Operations of the Group companies are regulated by the binding legal system, which defines the framework for conducting business activity on the domestic market, including, among others, the taxation system, the labour law, the competition and consumer protection and the environmental protection. Legal requirements for environmental protection become more stringent, which in the future may trigger additional expenses going forward. There is a risk of changes in the foregoing areas, both on the grounds of specific legal acts and individual interpretations, which may become a source of potential liabilities of the Group Companies.

Activity in the energy sector is regulated by the President of the Energy Regulatory Office, as the authority issuing decisions, approving tariffs and controlling their application. Regulatory and controlling powers held by the President of the Energy Regulatory Office create opportunities to influence the operations of both the Companies and the Group in the energy segment.

Throughout 2018, the Group continued to avail of support for electricity generated in high-efficiency cogeneration, said support in the form of certificates of origin from cogeneration - so called "red certificates". Pursuant to the provisions of the Act of 14 December 2018 on Promotion of electricity from high-efficiency cogeneration, as of 2019 the existing support system for cogeneration has been changed and Elektrociepłownia BĘDZIN Sp. z o.o. is not eligible for new support mechanisms.

In effect of amendments to the Energy Law, as of 2019, an energy company dealing with the generation of electricity is obliged to sell the generated electricity on commodity exchanges within the meaning of the Act of 26 October 2000 on commodity exchanges, on a market organized by an entity operating a regulated market on the territory of the Republic of Poland or on an organized trading platform.

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 was published thus establishing best available techniques (BAT) conclusions, under Directive 2010/75/EU of the European Parliament and of the Council, for large combustion plants.

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

Free of charge CO₂ emission allowances

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

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

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

In H1 2019, Elektrociepłownia BĘDZIN Sp. z o.o. submitted an application to the National Centre for Emission Balancing and Management for the allocation of free greenhouse gas emission allowances for the years 2021-2030.

Allocations of free allowances are insufficient to settle CO₂ emissions, which requires the purchase of additional allowances on the free market.

In H1 2019, the prices of CO₂ emission allowances were characterised by high price volatility. It was a consequence of such events as:

- the Brexit issue and the related market uncertainty,
- the emergence of new entrants to the market who buy allowances for speculative purposes,
- in April 2019, demand from EU ETS participants obliged to purchase allowances for the purpose of emission settlement for 2018,
- fluctuations on the market of energy raw materials prices,
- periodically high production from renewable energy sources (RES),
- climate warming in Europe in the winter time,
- the situation on the German market due to speculations related to Germany's departure from coal.

The EU emissions trading system (EU ETS)

Directive (EU) 2018/410 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 European Union | L 76/3, p.3 et seq.) entered into force on 8 April 2018. The document introduced a number of reforms to the existing system. The changes concern stage IV of the system's operation in the years 2021-2030. The main objectives of stage IV of the EU ETS system are as follows:

- launching the Market Stability Reserve (MSR),
- increasing the Linear Reduction Factor (LRF),

- creating the Innovation and Modernisation Fund,
- number of allowances available at auctions of CO₂ emission allowances,
- number of free allowances to be allocated during the regulation period.

Electricity prices

The price of electricity is influenced by many elements, including market and regulatory factors. The main factors affecting energy prices at national level are:

- the cost of production fuels,
- the cost of purchasing CO₂ emission allowances,
- the amount of energy produced through renewable energy sources,
- investments in modernisation of generation units in the context of environmental protection requirements,
- investments in new generation capacities and replacement of old, worn and torn generation units,
- investments in the transmission system.

Electricity demand

According to the forecast of the Ministry of Economy presented in the document entitled "Update of the forecast of demand for fuels and energy until 2030", the demand for electricity in the coming years will grow in all sectors of the economy and net electricity generation will increase to 193.3 TWh by 2030. Moreover, in accordance with the document entitled "Conclusions from forecast analyses for the needs of Poland's energy policy until 2050", by 2050, the electricity generation is expected to increase by approximately 40% - from 158 TWh in 2010 to 223 TWh in 2050.

Poland's energy policy until 2040

In 2018, the Ministry of Energy commenced work on the Energy Policy of Poland until 2040 and submitted the bill for consultation.

The main directions of the policy for the future years are as follows:

- optimal use of own energy resources,
- development of the electricity generation and network infrastructure,
- diversification of gas and oil supplies and development of network infrastructure,
- development of energy markets,
- implementation of nuclear energy,
- development of renewable energy sources,
- development of district heating and cogeneration,
- improving the energy efficiency of the economy.

Long-term development of the energy market

On 16 February 2016, the Polish Government adopted the "Plan for Responsible Development of Poland". This document defines the main directions of the state's action and new stimuli, which ensure stable development of the state in the future.

The basic assumption of the plan is to base the development of Poland on five pillars, i.e.:

- reindustrialisation,
- innovation,
- capital,
- foreign expansion,
- social and regional development.

According to the provisions of the document on the energy market, in order to increase energy efficiency and unblock investments after 2020 (including the avoidance of blackouts and independence from energy imports), the state intends to support, among other things,

the development of energy infrastructure (e.g. electricity storage technologies, energy bridges), free up market areas and introduce a power market mechanism that could stimulate investment in the conventional energy segment.

Power market

In 2017, the Power Market Act was passed (Journal of Laws of 2018, item 9), the purpose of which is to ensure continuity and stability of electricity supplies to both industry and households. Introduction of the power market means a change in the structure of the energy market from a single-trade market to a double-trade market, where transactions will involve not only the generation of electricity but also readiness to deliver electricity to the grid (net available capacity).

The selection of remunerated power market units will be based on Dutch type auctions. On the power market, there will be capacity auctions where power suppliers will offer capacity obligations, i.e. the obligation for the power supplier to be ready to deliver a certain amount of electricity to the system by the power market unit during the delivery period and to deliver a certain amount of electricity to the system during periods of danger. The first auctions took place in 2018 and concerned the delivery period from 2021 to 2023. Elektrociepłownia BĘDZIN Sp. z o.o. was subject to the capacity obligation of 55 MWe in 2021 and 2022. Estimated revenues from this process amount to PLN 13.2m and PLN 10.89m, respectively.

Situation in the domestic hard coal mining sector

The electricity price path will significantly depend on the costs of obtaining the production fuel. The situation in the sector and the necessity of its restructuring 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 clear. In view of the above and the fact that the production fuel is the main component of the cost of electricity generation, this generates additional risks in the process of concluding contracts for the supply of production fuel, in particular over the longer horizon.

Competition risk

The main competitor of Elektrociepłownia BĘDZIN Sp. z o.o. subsidiary on the local heating market are the sources belonging to TAURON Wytwarzanie S.A. (Elektrownia Łagisza) and TAURON Ciepło Sp. z o.o. (ZW Katowice), which belong to TAURON Polska Energia S.A. Group. Moreover, TAMEH (a company in which TAURON Polska Energia S.A. holds 50% of shares) operates on the local market.

ZW Katowice has a BCF100 district heating unit with a CFB 134 coal fluidised bed boiler with thermal power of 180 MW and peak gas-oil water boilers with an installed capacity of 3x38 MW.

In 2019, Elektrownia Łagisza (Power Plant) plans to shut down units no. 6 and 7 with a total installed thermal power of 306 MW (achievable thermal power of 279.20 MW). In September 2018, TAURON Wytwarzanie S.A. signed an agreement with Mostostal Warszawa on the extension of unit no. 10 in Elektrownia Łagisza to provide a district heating capacity, whereby modernisation of the 460 MW turbine will be carried out together with adjustment of the heat output system. Additionally, the construction of peak load and reserve boilers is also planned. The extension of unit no. 10 is to provide 150 MW of thermal power. The peak and reserve source is to be composed of four identical boilers with a heat output of approximately 36 MWt each, with 2 x 2000 m³ oil tanks.

Under the Low Emissions Liquidation Programme, by 2022, TAURON Ciepło Sp. z o.o. plans to connect 183 MW of heat capacity in eight cities of the Silesian-Dabrowa agglomeration with low emissions, i.e. in Będzin, Chorzów, Czeladź, Dąbrowa Górnicza, Katowice,

Siemianowice Śląskie, Sosnowiec and Świętochłowice. Moreover, in 2018-22 TAURON Ciepło Sp. z o.o. plans to attract new customers to this market with a total ordered capacity of 237 MW. The potential of the heat market is 420 MW and gradual connection of new off-takers may have a positive impact on the amount of ordered capacity and heat sales in Elektrociepłownia BĘDZIN Sp. z o.o.

A very important element limiting competition on the heat market may be free CO₂ emission allowances, the amount of which for the years 2013-2020 for sources supplying heat to Dąbrowa Basin market will be insufficient, which may cause a decrease in interest to gain new heat sales markets.

The key element of competitiveness on the heat market of the Dąbrowa Basin is the technical and economic capacity to transfer heat. The main heat distributor TAURON Ciepło Sp. z o.o. plays a very important role in shaping the heat sales markets of individual generators. The fact that the heat distributor is controlled by TAURON Polska Energia S.A. is a threat to Elektrociepłownia BĘDZIN Sp. z o.o. in the context of the capacity ordered by TAURON Ciepło Sp. z o.o.

An alternative may be Elektrociepłownia BĘDZIN Sp. z o.o. obtaining end heat off-takers on the Third Party Access (TPA) terms or indirect participation in the effects of the Low Emissions Liquidation Program.

Financial sector

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

The leasing industry in which the Company operates is highly competitive. The fact that it is composed of a significant number of entities of various sizes and profiles and the potential entry of new entities providing services in the area of activity of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. to this sector poses a risk of reduced demand for the services offered by this company.

However, the risk is mitigated by focusing services and specialization in the energy segment, where the related skills of the Company are high. Due to its strategic nature, the energy sector will have to invest in the construction of new capacities and the renovation of existing ones, regardless of the economic situation.

Development prospects.

The Group's development strategy is built on the basis of determining how to respond to changing market conditions, anticipating events that may be important for the Group and finally, on effective management of resources.

The key challenges affecting the need to implement the Group's development strategy include environmental challenges, challenges determined by the heat and power market, as well as general development objectives of the Group.

As part of the development strategy, the Group intends to undertake actions aimed at:

- increasing the value for shareholders,
- increasing heat sales markets through the implementation of new customer initiatives,
- increasing revenues from the sale of electricity through participation in the power market,
- contracting policy in the following areas: sale of electricity, purchase of CO₂ emission

- allowances,
- preparing Elektrociepłownia BĘDZIN Sp. z o.o. for combustion of fuels other than hard coal (gas),
 - increasing economic efficiency of the operations conducted by Elektrociepłownia BĘDZIN Sp. z o.o. through obtaining additional revenues from the sale of surplus water produced at the modernised water demineralisation station,
 - development of the product offering in the financial segment addressed to corporate customers and local administration units, with particular emphasis on investment leasing and debt purchase,
 - increasing the sales volume of individual operating segments, while building a margin,
 - building long-term relationships with customers,
 - optimal use of the organisation's potential.

IX. NATURAL ENVIRONMENT PROTECTION

1. Emission of pollution to the atmosphere

The Group's subsidiary, Elektrociepłownia BĘDZIN Sp. z o.o., is a plant generating electric power and heat. In H1 2019, it generated electric power and heat through power combustion of hard coal. Electric power is produced through highly efficient cogeneration.

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

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

Elektrociepłownia BĘDZIN Sp. z o.o. (subsidiary) complies with standards, conditions and requirements set in decisions and permits. The subsidiary submits all required reports and settles fees for the use of natural environment for business purposes as scheduled. The fees paid in 2019 were much lower than in previous years, mainly due to the reduction of SO₂ and NO_x emissions.

In 2016, a flue gas desulphurisation installation was handed over for operation. It enables compliance with the emission standards set forth in the new Industrial Emissions Directive.

In 2018, the investment aimed at the construction of a flue gas denitrification installation for each of the Company's boilers was completed. Tests of the installation confirmed the possibility of permanent operation under the operating regimes that have been in force since 1 January 2019.

2. Integrated permit

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

Waste management in the Capital Group is conducted within the framework of the Integrated Permit held by Elektrociepłownia BĘDZIN Sp. z o.o. In H1 2019, there were no deviations from the provisions of the held permit as regards the use of natural environment for the purpose of business activity.

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

On 6 February 2019 Elektrociepłownia BĘDZIN Sp. z o.o. requested the Regional Water Management Board in Gliwice of the National Water Management Authority for the issuance of a water permit for surface water treatment and distribution. This permit is necessary for the sale of demineralised water to external customers.

3. Trade in emission allowances

In March 2019, the annual report on CO₂ emission in 2018 was audited by a chartered auditor from TÜV Rheinland Polska Sp. z o.o. The annual report was assessed positively.

In 2018 and at the beginning of 2019, the Company purchased EUA allowances in the amount required for settlement in 2018.

4. Environment protection audits

On 12 March 2019, the employees of the Environmental Protection Department of the Marshal's Office of the Silesian Voivodeship visited the Company in order to amend the Integrated Permit.

During the meeting, the doubts arising from the necessity to change the provisions of the Integrated Permit were clarified and the plant was inspected in terms of legal obligations.

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

Elektrociepłownia BĘDZIN S.A. (dominant entity)

As at 30 June 2019, the manpower was 4 FTEs.

Between 1 January and 30 June 2019, the manpower did not change in Elektrociepłownia "Będzin" S.A.

Elektrociepłownia BĘDZIN Spółka z o.o. (subsidiary)

As at 30 June 2019, the manpower of Elektrociepłownia BĘDZIN Sp. z o.o. was 145 FTEs. Employees are offered participation in post-graduate studies, with the related expenses covered by the company. Development of staff professional skills translates into increased work efficiency, extended knowledge and expertise and allows to comply with requirements set by the market.

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

As at 30 June 2019, the manpower of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. was 19 FTEs.

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

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

As at 30 June 2019, the manpower in ENERGO – BIOMASA Sp. z o.o. was 57 FTEs.

Krzysztof Kwiatkowski - President of the Management Board

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30 September 2019.

