



Elektrociepłownia „Będzin” S.A. Group

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2016**



KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Elektrociepłownia „Będzin” S.A.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Elektrociepłownia „Będzin” S.A. with its registered office in Poznań, Bolesława Krzywoustego Street 7 (“the Group”), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) (“the Accounting Act”), Management and members of the Supervisory Board of the Parent Entity are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Parent Entity, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of Elektrociepłownia „Będzin” S.A. Group:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- comply, in all material respects, with applicable regulations that apply to the consolidated financial statements of the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

Management of the Parent Entity is responsible for the report on the Group's activities.

Our opinion on the consolidated financial statements does not cover the report on the Group's activities.

As required by the Accounting Act and the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "Decree") we report that the accompanying report on the Group's activities includes the information required by Art. 49 of the Accounting Act and the Decree and the information is consistent, in all material respects, with the consolidated financial statements. Furthermore, based on our knowledge about the Group and its environment obtained in the audit, we have not identified material misstatements in the report on the Group's activities.

As required by the Accounting Act and the Decree we report that the statement of corporate governance, which is a separate part of the report on the Group's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, j and k of the Decree. Furthermore we report that the information identified in paragraph 91 subparagraph 5 point 4 letter c, d, e, f, h and i of the Decree, included in the statement of corporate governance, in all material respects:

- has been prepared in accordance with the applicable regulations; and
- is consistent with the information contained in the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

signed on the Polish original

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

Poznań, 21 March 2017



Elektrociepłownia „Będzin” S.A. Group

**Report on the audit
of the consolidated financial statements**

**Financial Year ended
31 December 2016**



Elektrociepłownia „Będzin” S.A. Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

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Contents

1.	General	3
1.1.	Identification of the Group	3
1.1.1.	Name of the Group	3
1.1.2.	Registered office of the Parent Company of the Group	3
1.1.3.	Registration of the Parent Entity in the register of entrepreneurs of the National Court Register	3
1.1.4.	Management of the Parent Entity	3
1.2.	Key Certified Auditor and Audit Firm Information	3
1.2.1.	Key Certified Auditor information	3
1.2.2.	Audit Firm information	3
1.3.	Prior period consolidated financial statements	3
1.4.	Audit scope and responsibilities	4
2.	Financial analysis of the Group	5
2.1.	Summary analysis of the consolidated financial statements	5
2.1.1.	Consolidated statement of financial position	5
2.1.2.	Consolidated statement of profit or loss and other comprehensive income	6
2.2.	Selected financial ratios	7
3.	Detailed report	8
3.1.	Accounting principles	8
3.2.	Basis of preparation of the consolidated financial statements	8
3.3.	Method of consolidation	8
3.4.	Goodwill arising on consolidation	8
3.5.	Consolidation of equity and calculation of non-controlling interest	8
3.6.	Consolidation eliminations	9



Elektrociepłownia „Będzin” S.A. Group
The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

1. General

1.1. Identification of the Group

1.1.1. Name of the Group

Elektrociepłownia „Będzin” S.A. Group

1.1.2. Registered office of the Parent Company of the Group

61-144 Poznań
Bolesława Krzywoustego 7

1.1.3. Registration of the Parent Entity in the register of entrepreneurs of the National Court Register

Registration court:	District Court Katowice-Wschód in Katowice, VIII Commercial Department of the National Court Register
Date:	18 December 2001
Registration number:	KRS 000064511
Share capital as at the end of reporting period:	PLN 15.746 thousand

1.1.4. Management of the Parent Entity

The Management Board is responsible for management of the Parent Entity.

As at 31 December 2016, the Management Board of the Parent Entity was comprised of the Chairman of the Management Board Mr. Krzysztof Kwiatkowski.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname:	Rafał Wiza
Registration number:	11995

1.2.2. Audit Firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office:	Inflancka 4A, 00-189 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered into the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.3. Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.



Elektrociepłownia „Będzin” S.A. Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 29 June 2016.

The consolidated financial statements were submitted to the Registration Court on 12 September 2016.

1.4. Audit scope and responsibilities

The Parent Entity prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

The consolidated financial statements were audited in accordance with the contract dated 29 June 2016, concluded on the basis of the resolution of the Supervisory Board dated 11 May 2016 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.

We audited the consolidated financial statements at the Group entities during the period from 19 November to 2 December 2016 and from 20 February to 20 March 2017.

Management of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Entity is also responsible for the report on the Group's activities.

Our responsibility is to express an opinion and to prepare a report on the audit of the consolidated financial statements.

The Management Board of the Parent Entity submitted a statement, dated as at the same date as this report, as to the preparation of the consolidated financial statements that give a true and fair view, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm are independent of the entities within the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 ("IESBA Code") and the impartiality and independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000 with amendments) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code.



Elektrociepłownia „Będzin” S.A. Group
 The report on the audit of the consolidated financial statements
 for the financial year ended 31 December 2016

2. Financial analysis of the Group

2.1. Summary analysis of the consolidated financial statements

2.1.1. Consolidated statement of financial position

ASSETS	31.12.2016		31.12.2015	
	PLN '000	% of total	PLN '000	% of total
Non-current assets				
Property, plant and equipment	240 454	33,1	199 053	28,2
Intangible assets	4 984	0,7	5 640	0,8
Goodwill	1 937	0,3	1 937	0,3
Investments in associates	659	0,1	6 833	1,0
Lease receivables	260 215	35,9	242 884	34,4
Loans provided	12 858	1,8	18 584	2,6
Trade and other receivables	2 209	0,3	1 206	0,2
Deferred tax assets	1 109	0,3	-	-
Total non-current assets	524 425	72,2	476 117	67,5
Current assets				
Inventories	27 027	3,7	33 467	4,7
Lease receivables	90 444	12,4	87 159	12,4
Loans provided	22 922	3,2	71 634	10,2
Trade and other receivables	39 492	5,4	26 408	3,7
Current income tax receivable	-	-	392	0,0
Cash and cash equivalents	22 216	3,1	10 196	1,5
Prepayments	60	0,0	32	0,0
Total current assets	202 161	27,8	229 288	32,5
TOTAL ASSETS	726 586	100,0	705 405	100,0
EQUITY AND LIABILITIES				
Equity				
Share capital	37 728	5,2	37 728	5,4
Supplementary capital	45 352	6,2	42 636	6,0
Reserve capital	26 938	3,7	15 261	2,2
Capital from remeasurement of defined benefit plan	266	0,0	83	0,0
Accumulated profit from previous years	45 455	6,3	40 389	5,7
Total equity	155 739	21,4	136 097	19,3
Liabilities				
Interest-bearing loans and borrowings	334 765	46,1	317 882	45,1
Employee benefits	8 424	1,2	7 447	1,0
Trade and other liabilities	17 038	2,3	14 562	2,1
Provisions	7 412	1,0	4 868	0,7
Deferred tax liabilities	6 674	0,9	7 963	1,1
Total non-current liabilities	374 313	51,5	352 520	50,0
Interest-bearing loans and borrowings	150 462	20,7	174 891	24,8
Trade and other liabilities	21 890	3,0	23 530	3,3
Employee benefits	4 165	0,6	3 148	0,4
Current income tax liabilities	5 213	0,7	-	-
Provisions	14 804	2,0	15 219	2,2
Total current liabilities	196 534	27,1	216 788	30,7
Total liabilities	570 847	78,6	569 308	80,7
TOTAL EQUITY AND LIABILITIES	726 586	100,0	705 405	100,0



Elektrociepłownia „Będzin” S.A. Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

2.1.2. Consolidated statement of profit or loss and other comprehensive income

	1.01.2016 - 31.12.2016	% of total sales	1.01.2015 - 31.12.2015	% of total sales
	PLN '000		PLN '000	
Revenue	190 489	100,0	164 877	100,0
Other operating income	3 406	1,8	6 590	4,0
Operating expenses				
Depreciation and amortization	(16 653)	8,7	(15 284)	9,3
Materials and energy	(71 762)	37,7	(73 098)	44,3
External services	(17 511)	9,2	(13 943)	8,5
Taxes and charges	(5 383)	2,8	(5 374)	3,3
Payroll, social security and other benefits	(27 168)	14,3	(24 018)	14,6
Other expenses by kind	(1 852)	1,0	(559)	0,3
Cost of merchandise and raw materials sold	(4 401)	2,3	(2 015)	1,2
Other operating costs	(7 733)	4,1	(4 990)	3,0
	(152 463)	80,0	(139 281)	84,5
Results from operating activities	41 412	21,7	32 186	19,5
Finance income	3 902	2,0	1 445	0,9
Finance costs	(20 812)	10,9	(16 049)	9,7
Net finance costs	(16 910)	8,9	(14 604)	8,9
Share of profit of equity accounted investees	-	-	399	0,2
Profit before tax	24 502	12,9	17 981	10,9
Income tax expense	(5 043)	2,6	(3 533)	2,1
Profit for the period	19 459	10,2	14 448	8,8
OTHER COMPREHENSIVE INCOME, THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
Remeasurement of defined benefit plan	226	0,1	630	0,4
Income tax on positions that will not be reclassified to profit or loss	(43)	0,0	(120)	0,1
Other comprehensive income for the period, net of income tax	183	0,1	510	0,3
Total comprehensive income for the period	19 642	10,3	14 958	9,1



Elektrociepłownia „Będzin” S.A. Group
The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

2.2. Selected financial ratios

	2016	2015	2014
1. Return on sales			
$\frac{\text{profit for the period} \times 100\%}{\text{revenue}}$	10,2%	8,8%	12,7%
2. Return on equity			
$\frac{\text{profit for the period} \times 100\%}{\text{equity} - \text{profit for the period}}$	14,3%	11,9%	16,7%
3. Debtors' days			
$\frac{\text{average trade receivables (gross)} \times 365 \text{ days}}{\text{revenue}}$	34 days	41 days	53 days
4. Debt ratio			
$\frac{\text{liabilities} \times 100\%}{\text{equity and liabilities}}$	78,6%	80,7%	30,0%
5. Current ratio			
$\frac{\text{current assets}}{\text{current liabilities}}$	1,0	1,1	2,0

- Net revenue includes revenue from sales of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables from related parties and third parties at the beginning and at the end of the period, with no deduction made for allowances.



Elektrociepłownia „Będzin” S.A. Group
The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

3. Detailed report

3.1. Accounting principles

The Parent Entity maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Entity.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Entity, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Entity.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Entity.

3.2. Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Elektrociepłownia „Będzin” S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies other than banks and insurance companies (Official Journal from 2017, item 676).

3.3. Method of consolidation

The method of consolidation is described in note 8.1 of the notes to the consolidated financial statements.

3.4. Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 11 of the notes to the consolidated financial statements.

3.5. Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the Parent Entity.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Entity's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Entity.

Only equity of subsidiaries arising after the Parent Entity obtained control of the subsidiary is included in the equity of the Group.



Elektrociepłownia „Będzin” S.A. Group

The report on the audit of the consolidated financial statements
for the financial year ended 31 December 2016

3.6. Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Elektrociepłownia „Będzin” S.A. and agreed with information received from the subsidiaries.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

signed on the Polish original

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

Poznań, 21 March 2017

Poznań, 21 March, 2017

Dear Sirs and Madams,

Dear Shareholders,

The Capital Group of Elektrociepłownia "Będzin" S.A. may consider the past year to be very successful in terms of development of the Capital Group, in which it acts as the dominant company, conducting capital activity and corporate governance over its subsidiaries.

Within the corporate governance we focus mainly on investment activities in companies of Elektrociepłownia "Będzin" SA Capital Group and capital activities directed mainly to the energy sector.

The structure of the Group includes three companies in which Elektrociepłownia "Będzin" S.A. is a parent company listed on the Warsaw Stock Exchange. The Group's production activities in the area of electricity and heat production are carried out by Elektrociepłownia BĘDZIN Sp. z o.o., whereas the financial services, primarily for the energy sector, are run by Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A., a financial and leasing company.

The business model of Elektrociepłownia "Będzin" S.A. strives towards a holding company that groups energy companies and finance and leasing services for this sector. We are constantly working on formulating the Group's development strategy and achieving our goals. In June 2016 the efforts of the Management Board of the CHP "Będzin" S.A. Significant shareholders of the Company were two funds: FAMILIAR S.A, SICAV - SIF and AgioFunds Towarzystwo Funduszy Inwestycyjnych S.A.

In September 2016, after eight years, at the request of the Cooperative Banks from the SGB Group, the ETF-L ENERGO - UTECH S.A. subsidiary sold its 49% shares in SGB Leasing Sp. z o.o. and thus ended its role as an active capital investor in another financial company.

A significant success of 2016, and an important step in the development of the Capital Group, was the successful completion of investments enabling the operations of Elektrociepłownia Będzin sp. z o.o. in the long term. In November 2016, the Clyde Bergemann technology installation designed for flue gas desulphurisation and a single flue gas denitrification installation were commissioned for over PLN 90 million. Both installations were manufactured by the general contractor SBB Energy S.A. Group.

Thanks to accepting the challenge and hard work of many entities involved in the project, I can now confirm that the Elektrociepłownia Będzin Sp. z o.o. subsidiary can continue to operate in the industry as a producer of electricity and heat that meets all the imposed EU environmental regulations.

Owing to the investments made, Elektrociepłownia Będzin Sp. z o.o. provides jobs for all employees of the Company and co-operating companies.

In reference to my 2015 letter, my conviction that the managerial staff of Elektrociepłownia BĘDZIN Sp. z o.o. is perfectly fit to meet both the strategic and the ongoing objectives of the Company turned out to be true.

It was another, extremely intense, year in terms of development of the Capital Group. Special thanks to the shareholders, for their trust and unwavering faith in the Group's development potential. I would like to point out that the continuous development of the Capital Group and its stability translate into a steady increase in the price of the shares in Elektrociepłownia "Będzin" S.A. As at 31 December 2016, the stock price was PLN 23.00, compared to PLN 14.80 at the end of 2015, and PLN 11.50 at the end of 2014.

The year 2016, similarly to 2015, was closed with a very good financial result and fully successful implementation of the tasks planned by the Capital Group. These achievements were possible owing to the effective cooperation and involvement of the Management Boards of all the Group Companies: Elektrociepłownia „Bedzin” S.A, Elektrociepłownia BĘDZIN sp. z o.o. and Energetyczne Towarzystwo Finansowo-Leasingowe Energo – Utech S.A., as well as the support of the Supervisory Board of all the companies. The managerial staff and all employees thanks to their daily efforts greatly contributed to the success of Elektrociepłownia Będzin SA Capital Group. The activity of the entire Capital Group, also this year was supported by Kancelaria Adwokata i Radcy Prawnego Maria Brzoziewska, Radosław Kędziora Sp.p. Law Firm and Legal Counselor. Hereby, I would like to cordially thank you all for this invaluable contribution to the development of the Capital Group.

Sincerely yours,

Krzysztof Kwiatkowski

On behalf of the Capital Group

Elektrociepłownia „Będzin” S.A.

Poznań, 21 March, 2017.

**Statement of the Management Board of Elektrociepłownia „Będzin” S.A.
on the reliability of the preparation of the financial statements of the
Elektrociepłownia „Będzin” S.A. Capital Group
for the period from 1 January 2016 to 31 December 2016**

The Management Board of Elektrociepłownia „Będzin” S.A. hereby declares that to its best knowledge – the annual financial statements for the period from 1 of January 2016 to 31 December 2016 and the comparable data, have been prepared in accordance with the applicable accounting policies, and that they reflect in a true, reliable and transparent manner, the financial standing and the financial result of Elektrociepłownia „Będzin” S.A. Capital Group.

The report of the Management Board of Elektrociepłownia „Będzin” S.A. Capital Group on the Company’s operations for the year 2016 includes a true description, including the description of the risks associated with the next financial year.

Krzysztof Kwiatkowski - President of the Management Board

Poznań, 21 March, 2017

**Statement of the Management Board of Elektrownia „Będzin” S.A.
on the entity authorized to audit the financial statements of the
Elektrociepłownia „Będzin” S.A. Capital Group**

According to our deepest conviction and knowledge we declare that the entity authorized to audit financial statements - KPMG Audyt Sp. z o.o. Sp.k, - auditing the financial statements for the financial year 2016, was selected in accordance with the law and that the entity and the statutory auditors performing the audit met the conditions for an impartial and independent audit report in accordance with the applicable national law.

Krzysztof Kwiatkowski - President of the Management Board

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

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE ACCOUNTING YEAR
ENDING ON 31 DECEMBER 2016
COMPLIANT WITH THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

Contents

1.	General information.....	4
2.	Consolidated statement of financial position.....	5
3.	Consolidated statement of profit and loss account and other comprehensive income.....	7
4.	Consolidated statement of changes in equity.....	8
5.	Consolidated cash flow statement.....	9
6.	Data of the parent entity and of the Capital Group.....	10
7.	Basis for the consolidated financial statements.....	11
7.1	Statement on compliance.....	11
7.2	Basis for valuation.....	11
7.3	Functional and presentation currency.....	11
7.4	Judgements and estimates.....	11
7.5	New standards and interpretations.....	12
8.	Description of key accounting principles.....	12
8.1	Consolidation principles.....	13
8.2	Foreign currencies.....	14
8.3	Financial instruments.....	14
8.4	Lease agreements.....	17
8.5	Tangible fixed assets.....	18
8.6	Intangible assets.....	19
8.7	Trade and other receivables.....	19
8.8	Inventories.....	20
8.9	CO ₂ emission allowances / energy certificates.....	20
8.10	Impairment charges.....	21
8.11	Employee benefits.....	22
8.12	Provisions.....	23
8.13	Interest bearing loans and borrowings.....	24
8.14	Trade creditors and other creditors.....	24
8.15	Revenues.....	24
8.16	Net financial revenues (costs).....	25
8.17	Income tax.....	25
8.18	Costs by type.....	26
9.	Fair value measurement.....	26
10.	Financial risk management.....	27
11.	Settlement of subsidiary purchase.....	27
12.	Business segments reporting.....	28
13.	Revenues.....	30
14.	Other operating revenues.....	31
15.	Other operating costs.....	31
16.	Financial revenues and costs.....	32
17.	Costs of employee benefits.....	32
18.	Income tax.....	33
19.	Tangible fixed assets.....	34
20.	Intangible assets.....	36
21.	Investments measured with equity method.....	37
22.	Deferred tax assets and provision for deferred income tax.....	38
23.	Receivables arising from lease agreements.....	38
24.	Provided loans.....	40
25.	Trade receivables and other receivables.....	42
26.	Inventories.....	43
27.	Cash.....	43
28.	Prepayments and accruals.....	44
29.	Equity.....	44
30.	Profit per share.....	46
31.	Liabilities from loans, credits and other debt instruments.....	46
32.	Employee benefits liabilities.....	47
33.	Trade liabilities and other liabilities.....	49
34.	Provisions.....	49
35.	Subsidies.....	49
36.	Financial instruments.....	50
36.1	Equity management.....	50
36.2	Categories of financial instruments.....	50
36.3	Financial risk management.....	50
37.	Fair value of financial instruments.....	57
38.	Explanations to the cash flows statement.....	58

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

39	Contractual liabilities raised to purchase tangible fixed assets and intangible assets	60
40	Conditional liabilities and proceedings pending before court.....	60
41	Operating lease, rent and lease agreements	61
42	Transactions with connected entities	61
43	Events after the balance sheet date	62
44	Manpower	62
45	Remuneration of entity authorised to audit the financial statements	63
46	Approval of consolidated financial statements.....	63

1. General information

These financial statements for the period of 12 months ending on 31 December 2016 have been produced pursuant to the International Financial Reporting Standards approved by the European Union.

The statements present in a reliable and transparent manner the 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:

- Consolidated statement of financial position produced as at 31 December 2016,
- Consolidated Profit and Loss Account and other comprehensive income for the period from 1 January to 31 December 2016,
- Consolidated statement of changes in equity for the period from 1 January to 31 December 2016,
- Consolidated Cash flow statement for the period from 1 January to 31 December 2016,
- Additional information to the consolidated financial statements.

Management Board of Elektrociepłownia "Będzin" S.A.

Krzysztof Kwiatkowski
President of the Management Board

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

Bożena Poznańska

Poznań, 21 March 2017

2. Consolidated statement of financial position

	Note	31.12.2016	31.12.2015
Assets			
Fixed assets			
Tangible fixed assets	19	240 454	199 053
Intangible assets	20	4 984	5 640
Goodwill	11	1 937	1 937
Investments measured by equity method	21	659	6 833
Receivables under lease agreements	23	260 215	242 884
Granted loans	24	12 858	18 564
Other long-term investments		-	-
Trade debtors and other debtors	25	2 209	1 206
Deferred tax assets	22	1 109	-
Total fixed assets		524 425	476 117
Current assets			
Inventories	26	27 027	33 467
Receivables under lease agreements	23	90 444	87 159
Granted loans	24	22 922	71 634
Trade debtors and other debtors	25	39 492	26 408
Income tax receivables		-	392
Cash and cash equivalents	27	22 216	10 196
Accruals	28	60	32
Total current assets		202 161	229 288
Total assets		726 586	705 405

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

	Note	31.12.2016	31.12.2015
Liabilities			
Equity	29		
Share capital		37 728	37 728
Supplementary capital		45 352	42 636
Reserve capital		26 938	15 261
Defined benefits plan revaluation reserve		266	83
Retained profits		45 455	40 389
Total equity		155 739	136 097
Long-term liabilities			
Liabilities under loans, borrowings and other debt instruments	31	334 765	317 882
Liabilities under employee benefits	32	8 424	7 447
Trade creditors and other creditors	33	17 038	14 562
Provisions	34	7 412	4 666
Deferred income tax provisions	22	6 674	7 963
Total long-term liabilities		374 313	352 520
Short-term liabilities			
Liabilities under loans, borrowings and other debt instruments	31	150 462	174 891
Trade creditors and other creditors	33	21 890	23 530
Liabilities under employee benefits	32	4 165	3 148
Deferred income tax liabilities		5 213	-
Provisions	34	14 804	15 219
Total short-term liabilities		196 534	216 788
Total liabilities		570 847	569 308
Total liabilities		726 586	705 405

Explanatory notes to consolidated financial statements represents its integral part

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

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

	Note	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Revenues	13	190 469	164 877
Other operating revenues	14	3 406	6 590
Amortization and depreciation		(16 653)	(15 284)
Consumption of materials and energy		(71 762)	(73 098)
External services		(17 511)	(13 943)
Taxes and charges		(5 383)	(5 374)
Payroll and employee benefits		(27 168)	(24 018)
Other costs by type		(1 852)	(559)
Value of goods and materials sold		(4 401)	(2 015)
Other operating expenses	15	(7 733)	(4 990)
Profit on operating activities		41 412	32 186
Financial revenues	16	3 902	1 445
Financial expenses	16	(20 812)	(16 049)
Net financial revenues/ (expenses)		(16 910)	(14 604)
Share in net profit of entities measured by equity method		-	399
Gross profit		24 502	17 981
Income tax	18	(5 043)	(3 533)
Net profit		19 459	14 448
Net profit for reporting term		19 459	14 448
Other total income not taken to financial result in future reporting periods			
Revaluation of net liability under defined benefits plan		226	630
Income tax on items not taken to financial result		(43)	(120)
		183	510
Other comprehensive income for reporting period		183	510
Profits or losses and other comprehensive income for reporting period		19 642	14 958
Net profit per share			
Main (in PLN)	30	6,2	4,6
Diluted (in PLN)	30	6,2	4,6

Explanatory notes to consolidated financial statements represent its integral part

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

4. Consolidated statement of changes in equity

	Note	Share capital	Supplementary capital	Reserve capital	Defined benefits plan revaluation reserve	Retained profits	Total equity
Equity as at 01.01.2016		37 728	42 636	15 261	83	40 389	136 097
Net profit distribution	29	-	2 716	11 677	-	(14 393)	-
Profits for reporting period							
Net profit for reporting period		-	-	-	-	19 459	19 459
Other comprehensive income for reporting period							
Revaluation of net liability under defined benefit plan (adjusted by tax)	32	-	-	-	183	-	183
Profits or losses and other comprehensive income for reporting period					183	19 459	19 642
Total payments to and from owners							
Equity as at 31.12.2016		37 728	45 352	26 938	266	45 455	155 739

	Note	Share capital	Supplementary capital	Reserve capital	Defined benefits plan revaluation reserve	Retained profits	Total equity
Equity as at 01.01.2016		37 728	25 323	15 261	(427)	43 254	121 139
Net profit distribution	29	-	17 313	-	-	(17 313)	-
Profits or losses for reporting period							
Net profit for reporting period		-	-	-	-	14 448	14 448
Other comprehensive income for reporting period							
Revaluation of net liability under defined benefit plan (adjusted by tax)	32	-	-	-	510	-	510
Profits or losses and other comprehensive income for reporting period					510	14 448	14 958
Total payments to and from owners							
Equity as at 31.12.2016		37 728	42 636	15 261	83	40 389	136 097

Explanatory notes to consolidated financial statements represent its integral part

5. Consolidated cash flow statement

	Nota	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Cash flows from operating activity			
Gross profit		24 645	17 981
<i>Adjustments</i>			
Depreciation of tangible fixed assets	19	15 837	14 707
Amortisation of intangible assets	20	815	578
Profit on investment activity	16	(3 234)	(10)
Share in profit of entities measured with equity method	21	-	(399)
Change in receivables under lease agreements	38	(20 616)	6 318
Change in granted loans	38	54 418	(41 019)
Change in inventories		6 440	(8 659)
Change in trade debtors and other debtors	38	(13 605)	13 105
Change in trade creditors and other creditors	38	5 042	(679)
Change in provisions for employee benefits	38	4 468	5 201
Change in accruals		(121)	(32)
Change in subsidy		-	(1 486)
Other changes		252	(565)
Cash flows from operating activity		74 341	5 041
Net financial revenues/(costs)	16	19 334	13 479
Interest received		(151)	(338)
Interest paid		-	1 086
Income tax paid	38	(1 928)	(3 279)
Net cash flows from operating activity		91 596	15 989
Cash flows from investment activity			
Purchase of tangible fixed assets	38	(21 097)	(28 693)
Purchase of intangible assets		(154)	(155)
Purchase of shares and interests	38	(659)	(4 381)
Purchase of other investments		(1 257)	(1 000)
Disposal of tangible fixed assets		67	180
Disposal of shares and interests		9 650	-
Disposal of other investments		-	999
Received dividends		350	250
Received interest		151	338
Net cash flows from investment activity		(12 949)	(32 462)
Cash flows from financial activity			
Raised loans, credits and other debt instruments		303 972	320 376
Repaid loans, credits and other debt instruments		(350 777)	(292 563)
Payments under financial lease agreements		(1 350)	(49)
Interest paid	16	(18 472)	(14 406)
Net cash flows from financial activity		(66 627)	13 358
Net cash flows from financial activity		12 020	(3 115)
Opening balance of cash and cash equivalents		10 196	13 311
Closing balance of cash and cash equivalents		22 216	10 196
including restricted cash		6 285	1 200

Explanatory notes to consolidated financial statements represent their integral part

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

The consolidated financial statements for the period from 1 January to 31 December 2016 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 29.

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 31 December 2016

Name and registered office	Country	% share	
		2016	2015
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 31 December 2016

Name and registered office	Country	% share	
		2016	2015
ProMobil Fleet Sp. z o. o. ul. Karola Libelta 29/8, Poznań	Poland	40	-

In 2015, the parent company bought the total of 100% shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. (for more information see Note 11).

As at the day of approving these consolidated financial statements for issue and as at 31 December 2016, the composition of the management and supervisory bodies of the parent company was as follows:

Management Board

Krzysztof Kwiatkowski - President of the Management Board

Supervisory Board

Janusz Niedźwiecki - Chairman of the Supervisory Board
Waldemar Organista - Deputy Chairman of the Supervisory Board
Wiesław Głanowski - Member of the Supervisory Board
Józef Piętoń - Member of the Supervisory Board
Grzegorz Kwiatkowski - Member of the Supervisory Board
Maciej Węgorkiewicz - 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
Józef Piętoń - Member of the Audit Committee

7. Basis for the consolidated financial statements

7.1 Statement on compliance

These consolidated financial statements for the period from 1 January to 31 December 2016 have been produced as per the International Financial Reporting Standards ("IFRS") approved by the European Union ("EU") and the Resolution of the Ministry of Finance dated 19 February 2009 (Journal of Laws from 2014, item 133) on current and periodic information published by issuers of securities and on the conditions under which such information may be recognized as being equivalent to information required by regulations of law of a state which is not a member state.

7.2 Basis for valuation

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

7.3 Functional and presentation currency

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

7.4 Judgements and estimates

In order to prepare 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.

These consolidated financial statements have been produced assuming business continuity in the foreseeable future.

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

Information about significant judgements in the process of applying accounting principles that have the most significant impact on the values recognised in the consolidated financial statements has been presented in the following notes:

- Note 19 Tangible fixed assets
- Note 21 Investments measured with equity method
- Note 23 Receivables under lease agreements
- Note 24 Granted borrowings
- Note 31 Obligations under loans, borrowings and other debt instruments
- Note 32 Employee benefits
- Note 34 Provisions

7.5 New standards and interpretations

The following new standards, amendments to standards and interpretations have not been adopted by the EU or are not applicable to annual periods ending on 31 December 2016 and have not been applied for these consolidated financial statements:

- IFRS 14 Regulatory Deferral Accounts – for periods commencing on 1 January 2016 – the existing standard will not be applicable in the EU,
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to IFRS 10 Consolidated Financial Statements and to IAS 28 Associates) – the application date has not been defined,
- IFRS 16 Leasing – for periods commencing on 1 January 2019,
- Recognition of Deferred Tax Assets for Unrealised Losses (amendments to IAS 12 Income Tax) – for periods commencing on 1 January 2017,
- Disclosure Initiative (amendments to IAS 7 Statement of Cash Flows) - for periods commencing on 1 January 2017,
- IFRS 15 Revenue from Contracts with Customers – for periods commencing on 1 January 2018,
- Amendments to IFRS 2 (Share-based payment) – for periods commencing on 1 January 2018,
- Amendments to IFRS 4 (Insurance Contracts) – for periods commencing on 1 January 2018,
- Amendments to International Financial Reporting Standards 2014-2016 – for periods commencing on 1 January 2018 (except for amendments to IFRS 12 applicable to annual periods commencing on 1 January 2017 or later),
- IFRIC 22 Foreign Currency Transactions and Advance Consideration – for periods commencing on 1 January 2018,
- Amendments to IAS 40 Investment Property – for periods commencing on 1 January 2018,
- IFRS 9 Financial Instruments – Recognition and Measurement – for periods commencing on 1 January 2018.

The Group intends to apply them for the periods for which they will be applicable for the first time.

The Group has not analysed the impact of new Standards, amendments to Standards and Interpretations on its financial standing and performance.

8. Description of key accounting principles

The accounting principles (Policy) outlined below have been applied to all periods presented in the consolidated financial statements of the Capital Group unless indicated otherwise.

8.1 Consolidation principles

Subsidiaries

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

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

Associates and joint ventures

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

Investments in associates and joint ventures are settled in consolidated financial statements using the equity method (investments settled with equity method), and are initially recognized at purchase price. Investments of the Capital Group include the company's goodwill recognised at the purchase less the value of cumulated losses arising from impairment. The consolidated financial statements of the Capital Group present the Capital Group's share in profits and losses and changes in the equity of associates settled with the equity method (after standardizing applicable accounting principles), as of the commencement of significant impact or joint control until their expiry. If the Capital Group's share in losses exceeds the value of shares in an associate or joint venture, the balance sheet value (taking into account long-term investments) is reduced to zero. Then recognition of any additional losses is discontinued except for losses resulting from adoption by the Capital Group of legal or constructive obligations or from payment made on behalf of an associate or joint venture.

Consolidation procedures

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

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

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

8.2 Foreign currencies

Transactions in foreign currencies

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

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

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

8.3 Financial instruments

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

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

Non-derivate financial instruments

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

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

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

Financial assets at fair value through profit and loss account

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

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

Financial assets held to maturity

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

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

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

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

Loans and receivables

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

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

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

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

Financial assets held for sale

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

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

Non-derivative financial liabilities

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

Financial liabilities are deleted from the Capital Group's books when they are repaid, cancelled or expire.

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

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

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

Equity

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

8.4 Lease agreements

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

Financial lease agreements with the Capital Group as a lessor

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

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

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

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

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

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

Operating lease agreements with the Capital Group as a lessor

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

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

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

Lease agreements with the Capital Group as a lessee

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

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

8.5 Tangible fixed assets

Recognition and valuation

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

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

Production costs of fixed assets and their components cover total costs incurred over their construction, assembly, adaptation and upgrading incurred by the day a given asset was taken for use (or by the balance sheet day if the asset has not been handed over for use yet).

The production costs also include, if required, preliminary estimation of costs of disassembly and deletion of tangible fixed assets and restoration to the original condition. The purchased software necessary for a given device is activated as part of the device.

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

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

Profit and loss from disposal of tangible fixed asset are defined based on the comparison of revenues from disposal against the balance sheet value of disposed assets and are recognized in net amount as a profit or loss of the current period under the item other revenues or operating costs. When the sale refers to previously revaluated assets, the remaining amount is transferred to retained profits.

Subsequent expenditure

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

Depreciation

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

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

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

buildings and constructions (investments in third-party tangible fixed assets)	1.5% - 17%
machines and equipment	3.34% - 63.16%
means of transportation	7% - 33.33%
other tangible fixed assets	8.28% - 25%

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

8.6 Intangible assets

Intangible assets

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

Subsequent expenditures

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

Amortisation

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

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

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

Software	10% - 50%
Relations with customers	10%

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

8.7 Trade and other receivables

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

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

8.8 Inventories

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

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

8.9 CO₂ emission allowances / energy certificates

CO₂ emission allowances

Emission allowances granted free of charge

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

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

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

Purchased emission allowances

Purchased emission allowances are recognised at purchase price.

Allocation/Cancellation

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

- if the allowances held by the Capital Group are sufficient to cover its emission-related obligation: as a product of allowances to be cancelled as a result of emissions made and single cost of emission allowance held by the Capital Group and attributable as at the balance sheet day. Consolidated cost of allowances for estimated emission is calculated with FIFO method.
- if the Capital Group does not hold allowances sufficient to cover its emission-related obligation: as a product of allowances held by the Capital Group and attributable as at the balance sheet day and single cost of emission allowance increased by fair value of missing emission allowances.

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

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

Energy certificates of origin

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

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

8.10 Impairment charges

Financial assets (including receivables)

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

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

Objective indicators for impairment of financial assets are:

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

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

Given the nature of lease receivables portfolio the Capital Group does not perform collective assessment of credit risk.

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

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

Non-financial assets

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

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

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

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

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

8.11 Employee benefits

Defined contribution plan

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

Defined benefits plan

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

Retirement severance pay (defined benefits plan)

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

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

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

Disability retirement severance pay (defined benefits plan)

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

Death in service benefits (defined benefits plan)

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

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

Other long-term employees' benefits

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

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

Short-term employee benefits

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

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

8.12 Provisions

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

8.13 Interest bearing loans and borrowings

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

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

8.14 Trade creditors and other creditors

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

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

8.15 Revenues

Sale of finished goods/products

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

Revenues from sale of heat

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

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

Revenues from sale of electric energy

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

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

Rendered services

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

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

Revenues from financial lease agreements and loan agreements

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

Revenues from operating lease agreements and rental agreements

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

Sale of emission allowances

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

Energy certificates of origin

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

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

8.16 Net financial revenues (costs)

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

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

8.17 Income tax

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

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

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

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

8.18 Costs by type

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

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

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

9. Fair value measurement

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

Non-derivative financial assets and liabilities

Fair value is estimated based on current value of future cash flows from repayment of principal amount and interest discounted with interest rate applicable at the end of reporting period. Short-term assets and liabilities and assets and liabilities for which interest rates are updated with changed base rates are not discounted as their book value is similar to the fair value. Fair value is estimated only for the purpose of disclosure.

Trade debtors/creditors and other

It is assumed that the nominal value of debtors/creditors due in less than a year reflects their fair value. Debtors/creditors with longer maturity dates are discounted for the purpose of estimating their fair value.

10. Financial risk management

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

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

Information about the Capital Group's exposure to a given risk, objectives, principles and procedures of risk measurement and management adopted by the Capital Group along with information of capital management by the Capital Group is presented in Note 36.

11. Settlement of subsidiary purchase

On 15 April 2015, Elektrociepłownia „Będzin” S.A. took over control over Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A by way of the following transactions.

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

Purchase price

Elektrociepłownia "Będzin" S.A. purchased 100% of shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. for PLN 49,600.32 with the following payment terms:

- PLN 44.29k by 31 March 2015,
- PLN 6,500.00k by 2 April 2015,
- PLN 5,000.00k by 13 April 2015,
- PLN 19,840.13k by 15 April 2015,
- PLN 4,960.03k by 20 April 2015,
- PLN 13,255.87k by 31 March 2017.

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

On 13 April 2015, to finance the purchase of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A shares, Elektrociepłownia "Będzin" S.A. issued bonds with the total nominal value of PLN 30,000.00 with a 3-year maturity term, bearing 6M WIBOR reference rate and a margin of 4.5pp. Bonds are to be redeemed by 15 April 2018.

Purchase-related costs

Costs directly related to the transaction and allocated, as referring to the enterprises purchase transaction of PLN 337k have been recognized as third party services in 2015.

	As at the take over day
Purchased assets and taken over liabilities	
Tangible fixed assets	37 535
Intangible assets	5 983
Investments measured with equity method	6 684
Granted loans	49 179
Receivables under lease agreements	336 361
Trade debtors and other	18 587
Cash and cash equivalents	663
Provision for deferred income tax	(608)
Trade creditors and other	(5 756)
Liabilities arising from loans, borrowings and debt instruments	(401 926)
Employee benefits liabilities	(582)
Income tax liability	(13)
Fair value of identifiable net assets	46 107

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

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

According to the Management Board of Capital Group, the company's recognized goodwill results mostly from its experience and specialist knowledge in financial sector, its reputation, processes and business projects in the financial area and access to markets. Recognised goodwill will not be tax deductible for the purposes of calculating income tax.

At the end of current period, the Capital Group performed goodwill impairment testing for the financial segment. Impairment testing of goodwill on the balance sheet as at 31 December 2016 was performed against net assets increased by the goodwill on the level of Energetyczne Towarzystwo Finansowo-Leasingowe Ergo-Utech S.A. The recoverable amount of goodwill was measured based on its value in use.

Estimated projections for future cash flows were produced taking into account detailed financial projections for 2016-2020. Terminal value was estimated through extrapolation of projected free cash flows outside the plan using each time adequate growth rate. Weighted average cost of capital of 8.90% was applied. The value in use of the segment was PLN 60.971k at the testing date, i.e. 31 December 2016.

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

12. Business segments reporting

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

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

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.

In 2016, in the energy segment over 75% of revenues is generated on sale to one external counterparty (Capital Group). In 2015, sale to that counterparty accounted for 87% of revenues.

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

Operational segments period 01.01.2016 - 31.12.2016	for	Energy segment	Financial segment	Total
Revenues from external customers		155 646	34 823	190 469
Other operational revenues		1 276	2 130	3 406
Segment total revenues		156 922	36 953	193 875
Amortisation		(11 060)	(5 593)	(16 653)
Consumption of materials and energy		(71 564)	(198)	(71 762)
Third party services		(15 803)	(1 708)	(17 511)
Taxes and fees		(4 208)	(1 175)	(5 383)
Remuneration and employee benefits		(21 547)	(5 621)	(27 168)
Other costs by type		(570)	(1 282)	(1 852)
Value of sold goods and materials		(4 322)	(79)	(4 401)
Other operating costs		(4 444)	(3 289)	(7 733)
Operational activity bottom line		23 404	18 008	41 412
Financial revenues		360	3 542	3 902
Financial expenses		(1 157)	(19 655)	(20 812)
Gross profit		22 607	1 895	24 502
Income tax		(4 305)	(738)	(5 043)
Net profit		18 302	1 157	19 459

Assets and liabilities of segments as at 31.12.2016	Energy segment	Financial segment	Total
Segment assets	283 522	443 064	726 586
Total assets	283 522	443 064	726 586
Segment liabilities	133 202	437 645	570 847
Total equity	150 320	5 419	155 739
Total liabilities and equity	283 522	443 064	726 586

From 1 January to 31 December 2016 capex for tangible fixed assets in the energy segment totalled PLN 60,749k and PLN 32k in the financial segment.

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

Operational segments period 01.01.2015 - 31.12.2015	for	Energy segment	Financial segment	Total
Revenues from external customers		139 717	25 290	165 007
Other operational revenues		1 039	5 551	6 590
Zmiana stanu produktów		-	(130)	(130)
Segment total revenues		140 756	30 711	171 467
Amortisation		(11 075)	(4 209)	(15 284)
Consumption of materials and energy		(72 753)	(345)	(73 098)
Third party services		(12 588)	(1 355)	(13 943)
Taxes and fees		(4 577)	(797)	(5 374)
Remuneration and employee benefits		(20 809)	(3 209)	(24 018)
Other costs by type		(559)	-	(559)
Value of sold goods and materials		(2 015)	-	(2 015)
Other operating costs		(2 178)	(2 812)	(4 990)
Operational activity bottom line		14 202	17 984	32 186
Financial revenues		528	917	1 445
Financial expenses		(2 035)	(14 014)	(16 049)
Profit from share in associates measured with equity method		-	399	399
Gross profit		12 695	5 286	17 981
Income tax		(2 509)	(1 024)	(3 533)
Net profit		10 186	4 262	14 448

Assets and liabilities of segments as at 31.12.2016	Energy segment	Financial segment	Total
Segment assets	266 058	439 347	705 405
Total assets	266 058	439 347	705 405
Segment liabilities	134 223	435 085	569 308
Total equity	131 835	4 262	136 097
Total liabilities and equity	266 058	439 347	705 405

From 1 January to 31 December 2015, capex for tangible fixed assets totalled PLN 57,569k and PLN 6.536k in the financial segment.

13. Revenues

Revenues	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Revenues from sale of goods and materials	290	2 017
Revenues from sale of products and services	156 012	137 700
Lease revenues	28 151	20 184
Revenues from granted loans	4 235	3 957
Other revenues	1 781	1 019
Total revenues from sale	190 469	164 877

Lease revenues

Lease revenues	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Interest income – financial lease	22 088	15 647
Operational lease charge	6 063	4 537
Total leasing revenues	28 151	20 184

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Revenues from granted loans		
Interest income	4 235	3 957
Total revenues from granted loans	4 235	3 957

14. Other operating revenues

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Other operating revenues		
Release of impairment charges for inventories	89	61
Adjustment of financial assets	1 885	4 960
Profit from sale and liquidation of tangible fixed assets	203	543
Profit from sale of non-financial fixed assets	-	10
Compensation and contractual penalties received	346	425
Other revenues	883	591
Total other operating revenues	3 406	6 590

Revenues from release of impairment charges of PLN 1,885k refer mostly to lease receivables as the original reason for the impairment charge ceased to exist (mainly as a result of payments and signed additional arrangements).

15. Other operating costs

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Other operating costs		
Adjustment of financial assets	(3 158)	(1 678)
Loss on disposal of non-financial assets	-	(9)
Impairment charges for inventories	(616)	(396)
Impairment charges for receivables	(108)	(30)
Donations	(132)	(24)
Membership fees	(100)	-
Penalties and compensation paid	(37)	-
Provision for asset liquidation	(3 170)	(1 485)
Other costs	(412)	(1 368)
Other total operating costs	(7 733)	(4 990)

Costs related to adjustment of financial assets of PLN 3,158k refer mostly to impairment charges for lease receivables.

Costs related to provision for asset liquidation refer mostly to the costs of restoring to the original condition as a result of liquidation of water boiler WP-120 no. 8 and 9 (licensed activity).

16. Financial revenues and costs

Financial revenues and costs	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Dividends	-	-
Interest on bank accounts	156	339
Revenues from interest on receivables other than receivables under lease agreements	622	916
Other financial revenues	3 124	190
Total financial revenues	3 902	1 445
Discount of actuarial provisions	(229)	(257)
Costs of interest on financial liabilities measured at amortised cost	(18 810)	(14 603)
Costs of interest on bonds	-	-
Exchange differences	(325)	(374)
Other financial costs	(1 448)	(815)
Total financial costs	(20 812)	(16 049)
Net financial revenues/(costs) recognised in profit or loss of current period	(16 910)	(14 604)

Other financial revenues of PLN 3 124k refer mostly to the sale of shares in SGB Leasing sp. z o. o.

Interest income from assets and liabilities measured with effective interest rate method	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Revenues from interest on receivables other than receivables under lease agreements	622	916
Interest income on bank accounts	156	339
Interest income – financial lease	22 088	15 647
Interest income – granted loans	4 235	3 957
Costs of interest on financial liabilities measured at amortised cost	(18 810)	(14 603)
	8 291	6 256

17. Costs of employee benefits

Remuneration and employee benefits	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Remuneration	(22 489)	(18 585)
Social insurance (defined benefits plans)	(3 310)	(3 086)
Retirement severance pays (defined benefits plan)	39	(298)
Costs of jubilee benefits	(209)	(442)
Other employee benefits	(1 199)	(1 607)
Total remuneration and employee benefits	(27 168)	(24 018)

18. Income tax

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Income tax recognized in profit or loss of current period		
Income tax (current part)		
Income tax for reporting period	(7 482)	(3 321)
Income tax (deferred part)		
Origination/reversal of temporary differences	2 439	(212)
Income tax	(5 043)	(3 533)
Income tax recognised in other comprehensive income		
Actuarial profits (losses) under defined benefits plans	(43)	(120)
Income tax recognised in other comprehensive income	(43)	(120)

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Reconciliation of effective interest rate		
Net profit for reporting term	19 459	14 448
Income tax	5 043	3 533
Profit before tax	24 502	17 981
Tax based on applicable 19% tax rate	(4 655)	(3 406)
Tax effect of non-permanent income as per tax law	692	60
Tax effect of non-permanent costs as per tax law	(1 100)	(232)
Other (+/-)	20	45
Income tax	(5 043)	(3 533)

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

19. Tangible fixed assets

	Land, buildings and structures	Machines and equipment	Means of transportation	Other tangible fixed assets	Tangible fixed assets under construction	Total
Gross value of tangible fixed assets						
Gross value as at 01.01.2015	32 238	86 473	410	603	6 736	126 460
Purchase/reclassification	11 810	2 919	2 119	292	63 950	81 090
Purchase in effect of acquisition of business units	-	1 674	35 861	-	-	37 535
Sale	-	(10)	(883)	(34)	-	(927)
Liquidation	(15)	(1 565)	-	-	-	(1 580)
Settlement	-	-	-	-	(10 535)	(10 535)
Gross value as at 31.12.2015	44 033	89 491	37 507	861	60 151	232 043
Gross value as at 01.01.2016	44 048	90 533	45 862	917	60 151	241 511
Purchase/reclassification	26 388	86 272	256	261	59 676	172 853
Sale	-	(7)	(520)	-	-	(527)
Settlement/change of classification	-	-	(1 755)	-	(113 809)	(115 564)
Gross value as at 31.12.2016	70 436	176 794	45 598	1 175	6 018	298 266
Depreciation and impairment charges						
Depreciation and impairment charges as at 01.01.2015	3 118	17 137	153	263	-	20 671
Depreciation	1 895	9 173	3 403	199	-	14 670
Sale	-	-	(738)	(34)	-	(772)
Liquidation	(4)	(1 575)	-	-	-	(1 579)
Depreciation and impairment charges as at 31.12.2015	5 009	24 735	2 818	428	-	32 990
Depreciation and impairment charges as at 01.01.2016	5 009	25 777	11 173	483	-	42 442
Depreciation	2 357	8 831	4 495	154	-	15 837
Sale	-	(8)	(440)	-	-	(448)
Settlement/change of classification	-	-	(13)	-	-	(13)
Depreciation and impairment charges as at 31.12.2016	7 366	34 597	15 215	634	-	57 812
Net value						
01.01.2015	29 120	69 336	257	340	6 736	105 789
31.12.2015	39 024	64 756	34 689	433	60 151	199 053
01.01.2016	39 039	64 756	34 689	434	60 151	199 069
31.12.2016	63 070	142 197	30 383	541	6 018	240 454

Impairment charges and subsequent reversal

As at 31 December 2016 and 31 December 2015 the Capital Group did not create any impairment charges. At the end of current period, the Capital Group conducted impairment testing for the energy segment following significant changes in market prices for electric energy.

Projected future cash flows were estimated based on detailed financial projections for 2017-2026. Terminal value was estimated through extrapolation of projected free cash flows outside the plan using each time adequate growth rate. Weighted average cost of capital of 7.8% was applied. The value in use of the segment was PLN 248 916k at the testing date, i.e. 31 December 2016.

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

Leased tangible fixed assets

Under financial lease the Capital Group occupies property in Poznań at ul. Bolesława Krzywoustego 7. The balance sheet value of the property as at 31 December 2016 is PLN 3,975k. Additionally, under a financial lease agreement the Capital Group leases one passenger car – its balance sheet value as at 31 December 2016 was PLN 182k.

Collaterals

External financing granted to the Capital Group presented in Note 31 is secured with tangible fixed assets.

Key investments conducted over the reporting period:

- construction of flue gas desulphurization and denitrification facility of PLN 54 961k, including costs of external financing of PLN 2 607k (interest and fees),
- corrosion protection for insulated furnace chamber of boiler OP-140 of PLN 1 900k
- control panel for OP-140 boilers no. 6 and 7 - PLN 1180k
- modernisation of rotating plate air-preheaters of boiler OP-140 no. 7 – improved gas tightening of PLN 757k,
- construction of installation for removing fuel clusters in boiler-side coal bunkers WP-70 no.5 of PLN 549k
- reconstruction of feed pump PZ2 of PLN 550k
- modernisation of water treatment plant - river water supply to the station of PLN 150k
- purchase of thermogravimetric analyser TGA of PLN 137k
- transformation of water boiler control rooms into central control room of PLN 82k
- technical equipment, office equipment, computer, modernisation of Tele-technical system and others.

On 30 September 2014 Elektrociepłownia BĘDZIN Sp. z o. o. signed a contract on "Construction of flue gas desulphurization and denitrification facility in Elektrociepłownia BĘDZIN Sp. z o.o." with SBB Energy S.A.

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

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

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

	Year ending on 31 December 2016	Year ending on 31 December 2015
Land in perpetual usufruct		
Land in perpetual usufruct recognised in fixed assets as land	102	102
Land in perpetual usufruct recognised OBS	1 476	1 476
Total	1 578	1 578

20. Intangible assets

Gross value of intangibles	Patents, licences, software	Other intangible assets	Total
Gross value as at 01.01.2015	159	-	159
Acquisition	155	-	155
Purchase in effect of acquisition of business units	471	5 512	5 983
Gross value as at 31.12.2015	785	5 512	6 297
Gross value as at 01.01.2016	785	5 512	6 297
Acquisition	161	-	161
Gross value as at 31.12.2016	944	5 512	6 456

Amortisation and impairment charges	Patents, licences, software	Other intangible assets	Total
Amortisation and impairment charges as at 01.01.2015	79	-	79
Amortisation	165	413	578
Amortisation and impairment charges as at 31.12.2015	244	413	657
Amortisation and impairment charges as at 01.01.2016	244	413	657
Amortisation	264	551	815
Amortisation and impairment charges as at 31.12.2016	508	964	1 472

Net value	Patents, licences, software	Other intangible assets	Total
01.01.2015	80	-	80
31.12.2015	541	5 099	5 640
01.01.2016	541	5 099	5 640
31.12.2016	436	4 548	4 984

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

Impairment charges and reversal

No impairment charges have been made by the Capital Group.

Intangible assets of indefinite useful life

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

Collaterals

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

21. Investments measured with equity method

Investments measured with equity method	31.12.2016	31.12.2015
Interests in entities measured with equity method	659	6 833
	31.12.2016	31.12.2015
Percentage share in SGB Leasing capital	-	49,99%
Percentage share in PMF sp. z o. o. capital	40%	-
Fixed assets	2 330	296 750
Current assets	4 767	121 361
Long-term liabilities	(1 405)	(292 253)
Short-term liabilities	(4 045)	(112 189)
Net assets	<u>1 647</u>	<u>13 669</u>
Company's share in net assets	659	6 833
Elimination of unrealised profit (loss) on transaction with entity measured with equity method	-	-
Value of investment in entities measured with equity method	659	6 833
	31.12.2016	31.12.2015
Revenues	8 133	21 727
Profit on continued activity (100%)	311	798
Other comprehensive income (100%)	-	-
Total income (100%)	<u>311</u>	<u>798</u>
Company's share in comprehensive income	-	399
Elimination of unrealised profit (loss) on transaction with entity measured with equity method	-	-
Company's share in comprehensive income recognized in profit and loss account and other comprehensive income	-	399

Investments measured with equity method are shares in the following entities:

- as at 31 December 2015 - SGB Leasing Sp. z o.o., sold on 13 July 2016 to unconnected entity
- as at 31 December 2016 – Promobil Fleet spółka z o.o. purchased on 30 June 2016. The company specialises in long-term lease of cars.

22. Deferred tax assets and provision for deferred income tax

Deferred tax assets and provision for deferred income tax	Assets		Liabilities		Net value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Tangible fixed assets	1 069	791	(12 509)	(12 623)	(11 440)	(11 832)
Intangible assets	-	-	(864)	(969)	(864)	(969)
Investments measured by equity method	-	-	-	(331)	-	(331)
Receivables under lease agreements	1 712	421	(61)	-	1 651	421
Granted loans	37	27	(433)	(499)	(396)	(472)
Other investments	-	-	-	-	-	-
Trade debtors and other debtors	-	974	(20)	-	(20)	974
Inventories	190	74	(426)	(400)	(236)	(326)
Cash and cash equivalents	-	9	-	-	-	9
Prepayments and accruals	-	-	-	-	-	-
Available for sale assets	-	-	-	-	-	-
Liabilities under loans, credits and other debt securities	477	284	-	-	477	284
Employee benefits liabilities	2 383	2 013	-	-	2 383	2 013
Trade liabilities and other liabilities	107	218	247	-	354	218
Provisions	1 412	934	-	-	1 412	934
Tax losses brought forward to future reporting periods	1 114	1 114	-	-	1 114	1 114
Deferred tax assets and provision for deferred income tax	8 501	6 859	(14 066)	(14 822)	(5 565)	(7 963)
Compensation	(7 392)	(6 859)	7 392	6 859	-	-
Deferred tax assets and provision for deferred income tax recognized in financial statements	1 109	-	(6 674)	(7 963)	(5 565)	(7 963)

Change of temporary differences in the reporting period

Change of temporary differences in the reporting period	As at 01.01.2015	Change of temporary differences recognized as profit or loss in current period	temporary differences recognized in other comprehensive income	Change of temporary differences related to purchase of business units	As at 31.12.2015	Change of temporary differences recognized as profit or loss in current period	temporary differences recognized in other comprehensive income	Change of temporary differences related to purchase of business units	As at 31.12.2016
Tangible fixed assets	(10 195)	(120)	-	(1 517)	(11 832)	392	-	-	(11 440)
Intangible assets	-	78	-	(1 047)	(969)	105	-	-	(864)
Investments measured by equity method	-	(28)	-	(303)	(331)	331	-	-	-
Receivables under lease agreements	-	(596)	-	1 017	421	1 352	-	-	1 773
Granted loans	-	(468)	-	(4)	(472)	76	-	-	(396)
Other investments	-	-	-	-	-	-	-	-	-
Trade debtors and other debtors	(5)	29	-	950	974	(944)	-	-	30
Inventories	(367)	41	-	-	(326)	90	-	-	(236)
Cash and cash equivalents	-	-	-	-	9	-	-	-	9
Prepayments and accruals	-	-	-	-	-	-	-	-	-
Available for sale assets	-	-	-	-	-	-	-	-	-
Liabilities under loans, credits and other debt securities	25	98	-	161	284	163	-	-	447
Employee benefits liabilities	2 129	(61)	(120)	65	2 013	370	(43)	-	2 340
Trade liabilities and other liabilities	149	69	-	-	218	28	-	-	246
Provisions	732	202	-	-	934	478	-	-	1 412
Tax losses brought forward to future reporting periods	579	535	-	-	1 114	-	-	-	1 114
	(6 953)	(221)	(120)	(678)	(7 963)	2 441	(43)	-	(5 565)

23. Receivables arising from lease agreements

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

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

When a leasing agreements expires or is terminated, the customer has the right to repurchase the leased asset at the residual price set upon making the agreement. Throughout the lease agreement

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

term, the ownership title to the leased asset is held by the Capital Group and represents the main collateral for the repayment of leasing receivables. As a standard, lease agreements are secured with a blanc bill of exchange. The additional collateral includes, inter alia, mortgage, registered pledge on fixed assets, repossession of fixed assets, transfer of receivables, etc. The leased asset is always insured with full insurance cover applicable to a particular type of asset.

Receivables from leasing agreements	31.12.2016	31.12.2015
Long-term receivables from leasing agreements	260 215	242 884
Short-term receivables from leasing agreements	90 444	87 159
	350 659	330 043
Net receivables from leasing agreements	31.12.2016	31.12.2015
Gross receivables from leasing agreements	354 024	331 927
Impairment charge on receivables from leasing agreements	(3 365)	(1 884)
	350 659	330 043
Gross receivables from leasing agreements	31.12.2016	31.12.2015
With no impairment identified	350 659	330 043
With impairment identified, including:		
- portfolio measured individually	3 365	1 884
	354 024	331 927
Impairment charge on receivables from leasing agreements	31.12.2016	31.12.2015
portfolio measured individually	(3 365)	(1 884)
	(3 365)	(1 884)
Mix of gross receivables from leasing agreements, by currencies (converted to PLN)	31.12.2016	31.12.2015
PLN	354 024	331 927
	354 024	331 927
Mix of gross receivables from leasing agreements, by maturity	31.12.2016	31.12.2015
up to 1 month	8 831	9 664
between 1 and 3 months	31 122	16 969
between 3 and 6 months	22 228	19 715
between 6 and 12 months	58 089	42 488
between 1 and 3 years	166 879	156 375
between 3 and 5 years	19 993	83 323
above 5 years	46 882	3 393
	354 024	331 927

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

Gross receivables from leasing agreements including unrealized revenues from leasing instalments	31.12.2016	31.12.2015
Gross receivables from leasing agreements	354 024	331 927
Unrealized financial revenues	57 104	32 605
	411 128	364 532
Past due receivables from leasing agreements	31.12.2016	31.12.2015
1-30 days	1 819	508
31-90 days	715	1 145
above 90 days	831	231
	3 365	1 884
Gross receivables from leasing agreements including unrealized revenues from leasing instalments, by maturities	31.12.2016	31.12.2015
up to 1 year	136 955	101 834
between 1 and 5 years	220 769	259 148
above 5 years	53 404	3 550
	411 128	364 532
Change in balance of impairment charges on leasing agreements	31.12.2016	31.12.2015
Opening balance	(1 884)	-
Increases resulting from purchase of business units		(3 395)
Increases	(3 365)	(1 677)
Cancellations	1 884	3 188
Regrading	-	-
Closing balance	(3 365)	(1 884)

As at 31 December 2016, the total amount of receivables arising from lease agreements secured the financial liabilities. The exposure to credit risk, interest rate risk, currency risk and liquidity risk is presented in note 36.

All past due receivables arising from lease agreements were covered with impairment charges, while other receivables from lease agreements (regular, non-past due ones) were considered as recoverable.

24. Provided loans

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

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

The total value of valid factoring limits was PLN 120m as at 31 December 2016. The average term of invoice funding is 45 days. The factoring transactions are based on variable interest rates and as a standard, the recourse factoring agreements are secured with assignment of receivables from contracts and blanc bill of exchange.

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

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

Receivables from loans	31.12.2016	31.12.2015
Long-term receivables from loans	12 858	18 564
- from connected entities		2 500
Short-term receivables from loans	22 922	71 634
- from connected entities		-
	<u>35 780</u>	<u>90 198</u>

Net receivables from loans	31.12.2016	31.12.2015
Gross receivables from loans	36 332	90 750
Impairment charge on receivables from loans	(552)	(552)
	<u>35 780</u>	<u>90 198</u>

Gross receivables from loans	31.12.2016	31.12.2015
With no impairment identified	35 780	90 198
With impairment identified, including:		
- portfolio measured individually	552	552
	<u>36 332</u>	<u>90 750</u>

Impairment charge on receivables from loans	31.12.2016	31.12.2015
Portfolio measured individually	(552)	(552)
	<u>(552)</u>	<u>(552)</u>

Mix of gross receivables from loans, by maturity	31.12.2016	31.12.2015
up to 1 month	238	59 184
between 1 and 3 months	20 799	494
between 3 and 6 months	789	11 050
between 6 and 12 months	1 648	1 458
between 1 and 3 years	4 790	7 957
between 3 and 5 years	1 771	3 149
above 5 years	6 297	7 458
	<u>36 332</u>	<u>90 750</u>

Gross receivables from loans including unrealized revenues from leasing instalments	31.12.2016	31.12.2015
Gross receivables from loans	36 332	90 750
Unrealized financial revenues	2 018	3 468
	<u>38 350</u>	<u>94 218</u>

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

Past due receivables from loans	31.12.2016	31.12.2015
above 90 days	552	552
	552	552

Gross receivables from loans including unrealized revenues from leasing instalments, by maturities	31.12.2016	31.12.2015
up to 1 year	23 781	72 561
between 1 and 5 years	7 562	13 318
above 5 years	7 007	8 339
	38 350	94 218

Change in balance of impairment charges on loans	31.12.2016	31.12.2015
Opening balance	(552)	(1 785)
Increases	-	(540)
Cancellations	-	1 773
Closing balance	(552)	(552)

As at 31 December 2016, the total amount of receivables arising from loan agreements secured the financial liabilities.

The exposure to credit risk, interest rate risk, currency risk and liquidity risk is presented in note 36.

All past due receivables arising from provided loan agreements were covered with impairment charges, while other receivables from loan agreements (regular, non-past due ones) were considered as recoverable.

25. Trade receivables and other receivables

Trade receivables and other receivables	31.12.2016	31.12.2015
Trade receivables from connected entities	-	40
Other receivables from connected entities	-	-
Trade receivables from non-connected entities	19 325	16 010
Receivables from tax, subsidy, customs, social security and other benefits	19 843	9 970
Other receivables	2 533	1 594
	41 701	27 614
- long-term	2 209	1 206
- short-term	39 492	26 408

As at 31 December 2016, trade receivables from non-connected entities were represented mainly by trade receivables arising from the sale of electric power and heat. Receivables arising from taxes, customs and insurance were represented mostly by VAT.

The Capital Group's exposure to credit risk and FX risk as well as related impairment charges are presented in note 36.

26. Inventories

Inventories	31.12.2016	31.12.2015
Materials	9 938	12 674
Energy certificates	1 241	1 714
CO2 emission allowances	15 780	19 079
Advance payments for supplies	68	-
	27 027	33 467

As at 31 December 2016, materials were represented mainly by the gathered coal stock.

As at 31 December 2016, the impairment charge on inventories set to revalue the inventories to reflect the feasible net sale price, was PLN 1 645k (as at 31 December 2015, it was PLN 1 090k). In the profit and loss account, in the other operating revenues and other operating expenses, the value of impairment charge on inventory was presented at PLN 572k in 2016 and PLN 336k in 2015.

As at 31 December 2016, the inventory represented security for financial liabilities.

CO2 emission allowances	31.12.2016	31.12.2015
As at 01.01.2016	19 079	11 147
Purchase	8 513	11 960
Received (free of charge allocation)	3 200	5 611
Cancellation (as per annual emission)	(15 012)	(9 639)
As at 31.12.2016	15 780	19 079

Energy certificates	31.12.2016	31.12.2015
As at 01.01.2016	1 714	1 944
Generation	2 580	2 462
Sale	(2 443)	(2 301)
Impairment charge	(610)	(391)
As at 31.12.2016	1 241	1 714

27. Cash

Cash and cash equivalents	31.12.2016	31.12.2015
Cash at hand	8	5
Cash in current accounts	18 831	9 322
Short-term deposits	3 377	869
Total cash and cash equivalents	22 216	10 196
Cash and cash equivalents recognized in cash flows statement	22 216	10 196
Restricted cash	6 285	1 200

The Capital Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are presented in note 36. Restricted cash is represented by deposit opened with the underwriter of bonds issued by the dominant entity to finance the purchase of shares in Energetyczne Towarzystwo Finansowo-Leasingowe Energo- Utech S.A. – PLN 917k and deposit opened by Elektrociepłownia Będzin Spółka z o.o. to secure funds for purchasing CO₂ emission allowances – PLN 1,991k.

28. Prepayments and accruals

	31.12.2016	31.12.2015
Prepayments and accruals related to insurance of leased assets	30	26
Other prepayments and accruals	30	6
	60	32

29. Equity

Equity	31.12.2016	31.12.2015
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	31.12.2016	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				45 352
Reserve capital				26 938
Total other capital				72 290
Defined benefits plan revaluation reserve				266
Retained profits				45 455
Total equity				155 739

Equity as at	31.12.2015	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				42 636
Reserve capital				15 261
Total other capital				57 897
Defined benefits plan revaluation reserve				83
Retained profits				40 389
Total equity				136 097

As at 31 December 2016, the share capital of the dominant entity was PLN 37,728k. In the financial statements, the Capital Group presents the share capital as the nominal value of issued and acquired shares and the revaluation of PLN 21,982k resulting from the application of IAS 29.

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

The revaluation effects reduce the retained earnings. That adjustment is to reflect the hyperinflation influence over the financial result for a particular reporting period. The revaluation should apply to years 1990-1996. The adjustment does not change the value of the share capital presented in the financial statements, neither does it change the value of net assets per share.

To revalue the capital, the consumer price index for the years 1992-1996 published by GUS (Central Statistical Office of Poland), was applied.

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

Ownership structure of the share capital of the dominant entity as at 31 December 2016.

Shareholder	Number of shares	Nominal value of shares	Shareholding (%)
Krzysztof Kwiatkowski	808 698	4 043	25,68%
Waldemar Organista	688 146	3 441	21,85%
AgioFunds TFI SA	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%
State Treasury	157 466	787	5,00%
Other shareholders	577 262	2 886	18,33%
	3 149 200	15 746	100,00%

Dividends

In 2015 and in 2016, the dominant entity did not pay any dividend.

Supplementary capital

Pursuant to §396 of the Code of Commercial Companies, the dominant entity is obligated to keep the retained profits (the supplementary capital) in the amount representing up to 1/3 of the share capital and to allocate it covering the potential financial losses only. The entity must allocate to that purpose minimum 8% of the current profit until the required equivalent of 1/3 of the share capital is gathered. As at 31 December 2016, the capital was PLN 45,352k.

Other reserve capital

Other reserve capital are represented mainly by amounts allocated by force of decision of the Annual General Meeting in the process of distributing the financial profit.

Benefits revaluation reserve

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

Retained profits

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

30. Profit per share

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

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

	31.12.2016	31.12.2015
Opening number of shares	3 149 200	3 149 200
Closing number of shares	3 149 200	3 149 200
Average weighted number of issued shares	3 149 200	3 149 200

	31.12.2016	31.12.2015
Net profit distributed amongst shareholders of dominant entity (in PLN k)	19 459	14 448
Number of shares	3 149 200	3 149 200
Main profit per share (PLN/share)	6,2	4,6

31. Liabilities from loans, credits and other debt instruments

This note presents information about the Capital Group's liabilities arising from loans, credits and other debt instruments measured at amortised cost. Information about the Capital Group's exposure to credit risk, interest rate risk and liquidity risk is presented in note 36.

Liabilities from loans, credits and other debt instruments	31.12.2016	31.12.2015
Long-term liabilities		
Secured loans and credits	295 385	277 397
Liabilities from debt securities and interest	30 020	29 659
Financial lease liabilities	9 360	10 826
	334 765	317 882
- from connected entities	-	10 793

	31.12.2016	31.12.2015
Short-term liabilities		
Secured loans and credits	144 124	166 276
Liabilities from debt securities (non-secured)	4 939	7 227
Financial lease liabilities	1 399	1 388
	150 462	174 891
- from connected entities	9 878	10 145

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

As at 31 December 2016, secured loans and credits were represented by secured loans and credits granted by financial institutions, said facilities denominated in PLN, bearing WIBOR-based variable interest rate and margin of the financing institution. The average nominal value of said interest rate was 3.74% as at 31 December 2016.

Long-term liabilities arising from debt securities, in the amount of PLN 29,768k result from the bonds issue aiming to finance the purchase of shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.

The bonds issue took place on 13 April 2015 and its total nominal value was PLN 30,000k. The bonds are 3Y instruments (redemption date at 15 April 2018) bearing 6M WIBOR reference rate plus margin of 4.5 p.p.. At the end of 2015, the Capital Group purchased its own bonds worth PLN 500k for the purpose of their redemption.

Short-term liabilities arising from debt securities result from the issue of non-secured bills of exchange to be redeemed by 30 June 2017, said bills of exchange acquired by an entity connected with the Capital Group. The average nominal value of interest rate on the bills of exchange was 6.0% as at 31 December 2016.

Financial lease liabilities stem mainly from nine financial lease agreements secured with the leased assets, said agreements signed with SGB Leasing Sp. z o.o., with the final repayment dates scheduled from 2018 to 2025. As at 31 December 2015, the average nominal value of interest rate on the said agreements was 5.0%.

The leased assets handed over for use, the receivables from said agreements, the receivables from loan agreements, trade receivables and tangible fixed assets represent collateral for the credit liabilities. The exposure to credit risk, interest rate risk, FX risk and liquidity risk is presented in note 36.

32. Employee benefits liabilities

Change in current value of liabilities under defined benefits	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Opening balance of liabilities under defined benefits	3 148	4 035
Current employment cost	1 249	119
Interest cost	103	129
Defined benefits plan revaluation reserve recognized in other comprehensive income	(226)	(630)
Future employment cost	(23)	55
Restrictions/ liquidation of plan	-	-
Benefits paid	(86)	(560)
Closing balance of liabilities under defined benefits	4 165	3 148

Change in current value of liabilities under defined employee benefits	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
Opening balance of liabilities under defined employee benefits	7 447	7 172
Increases resulting from purchase of business units	-	582
Current employment cost	4 599	3 093
Liabilities resulting from purchase of business units	-	-
Interest cost	127	128
Defined benefits plan revaluation reserve recognized in profit or loss in current reporting period	(286)	(1 866)
Benefits paid	(3 444)	(2 702)
Future employment cost	-	1 040
Released	(19)	-
Closing balance of liabilities under defined employee benefits	8 424	7 447

Liabilities under defined benefits include: provision for retirement severance payments, provision for disability severance payments, provisions for death-in-service severance payments, provisions for power discount and provisions for Employee Benefit Fund charge.

Actuarial assumptions

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

	year ending on 31 December 2016	year ending on 31 December 2015
Discount rate as at 31 December	3.5%	2.75%
Future growth of remuneration	5.0%	2.3%

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

Change in balance of liabilities under employee benefits	Service anniversary awards	Retirement and disability severance payments	Other liabilities	Total
As at 01.01.2016	4 611	2 946	3 038	10 595
Raised	209	208	5 548	5 965
Utilised	(733)	(84)	(2 711)	(3 531)
Released	-	-	(214)	(214)
Revaluation of provisions recognized in other comprehensive income	-	(181)	(45)	(226)
As at 31.12.2016	4 087	2 886	5 616	12 589
long-term provisions	3 699	2 570	2 155	8 424
short-term provisions	388	316	3 461	4 165

Change in balance of liabilities under employee benefits	Service anniversary awards	Retirement and disability severance payments	Other liabilities	Total
As at 01.01.2015	3 808	3 482	3 917	11 207
Raised	1 676	274	2 614	4 564
Acquired in effect of purchased business units	243	142	197	582
Utilised	(685)	(348)	(2 229)	(3 262)
Released	(431)	(46)	(1 389)	(1 866)
Revaluation of provisions recognized in other comprehensive income	-	(558)	(72)	(630)
As at 31.12.2015	4 611	2 946	3 038	10 595
long-term provisions	3 893	2 883	671	7 447
short-term provisions	718	63	2 367	3 148

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

33. Trade liabilities and other liabilities

Trade liabilities and other liabilities	31.12.2016	31.12.2015
Trade liabilities to connected entities	-	2
Other liabilities to connected entities	6 838	12 249
Trade liabilities to non-connected entities	20 939	11 177
Tax, customs and social insurance liabilities	3 045	3 272
Payroll liabilities	391	397
Accruals	-	-
Deferred income	181	140
Other liabilities	7 534	10 855
Total trade liabilities and other liabilities	38 928	38 092
long-term	17 038	14 562
short-term	21 890	23 530

Other liabilities to connected entities – PLN 6,838k and other liabilities to other entities – PLN 3,908k are represented by part of purchase price for the shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A., the payment of which was deferred by 30 June 2018 in accordance with the agreement.

Exposure to liquidity risk in terms of liabilities was presented in note 36.

34. Provisions

Provisions	Provision for CO ₂ emission allowance	Other provisions	Total
Value at 01.01.2016	15 012	4 873	19 885
Raised	14 451	3 523	17 974
Utilised	(15 012)	(631)	(15 643)
Released	-	-	-
Value at 31.12.2016	14 451	7 765	22 216
long-term	-	7 412	7 412
short-term	14 451	353	14 804

Provision for CO₂ emission allowances

The provision is raised for liabilities arising from the emission of pollution to the atmosphere, which are measured as the product of allowances necessary for cancellation due to the effected emission and the unit cost of emission allowances held by the Group and payable as at the balance sheet date. The unit cost of allowances necessary to cover the estimated emission is calculated using FIFO method. The Capital Group is obliged to cancel relevant number of emission allowances by the end of April next year.

Other provisions

The item is represented mainly by provision for implications of liquidation of the licensed activity – liquidation of water boiler WP-120 no. 9 and no. 8. The provision is subject to revaluation as at the balance sheet date based on cost estimate prepared by a third party entity offering services in the scope of planned liquidation work. As at 31 December 2016, the provision totalled PLN 7 412k, while as at 31 December 2015, it was PLN 4 666k. The work covered by the provision is scheduled to be delivered by the end of 2019.

35. Subsidies

In 2016, in effect of receiving free of charge CO₂ emission allowances, the Company recognized subsidies of PLN 3 200k, which were taken to the financial result of the same financial year.

36. Financial instruments

36.1 Equity management

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

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

Moreover, in accordance with the Code of Commercial Companies, the supplementary capital should be maintained in the amount representing up to 1/3 of the share capital. The Capital Group must allocate to that purpose minimum 8% of the current profit until the required equivalent of 1/3 of the share capital is gathered. As at 31 December 2016, the supplementary capital of the Capital Group was compliant with the foregoing requirement.

36.2 Categories of financial instruments

Financial assets	31.12.2016	31.12.2015
Loans and receivables	408 297	437 885
Cash and cash equivalents	22 216	10 196
	430 513	448 081
Recognized in financial statements as:		
Trade receivables and other receivables	21 858	17 644
Cash and cash equivalents	22 216	10 196
Granted loans	35 780	90 198
Receivables from leasing agreements	350 659	330 043
	430 513	448 081
Financial liabilities		
Measured at amortised cost	521 110	527 593
Measured at fair value	-	-
	521 110	527 593
Recognized in financial statements as:		
Long-term liabilities under loans, credits and other debt securities	334 765	317 882
Short-term liabilities under loans, credits and other debt securities	150 462	174 891
Trade liabilities and other	35 883	34 820
	521 110	527 593

36.3 Financial risk management

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

Credit risk

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

by the Group in this respect allows to identify credit risk at the offering stage and throughout agreements validity terms.

The Capital Group is not exposed to credit risk in terms of financial transactions as it cooperates with highly credible financial institutions.

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

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

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

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

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

The Capital Group makes impairment charges on receivables arising from lease agreements and loan agreements in the following circumstances:

- delays in the repayment of receivables,
- periodical assessment of financial standing indicating the risk of the customer's insolvency.

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

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

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

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

Elektrociepłownia "Będzin" S.A. Capital Group
 Consolidated financial statements for the accounting year ending on 31 December 2016
 (as per the IFRS of the EU, in PLN k)

	31.12.2016	31.12.2015
Loans and receivables, including:	430 513	448 081
<i>leasing agreements</i>	350 659	330 043
<i>granted loans</i>	35 780	90 198
<i>trade receivables and other</i>	21 858	17 644
<i>cash and cash equivalents</i>	22 216	10 196
	<u>430 513</u>	<u>448 081</u>

Collateral established for the benefit of the Capital Group

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

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

All leasing agreements have been signed and are executed in Poland.

	31.12.2016	31.12.2015
Polska	350 659	330 043

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

	31.12.2016	31.12.2015
Rail transport	169 666	216 141
Road transport	71 839	61 460
Energy sector	49 391	16 059
Construction sector	-	36 383
Other	59 763	-
	<u>350 659</u>	<u>330 043</u>

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

	31.12.2016	31.12.2015
Customer A	58 781	51 177
Customer B	37 044	36 300
Customer C	27 373	33 417
Customer D	26 473	23 653
Customer E	24 229	20 852
Other	176 759	164 644
	<u>350 659</u>	<u>330 043</u>

Elektrociepłownia "Będzin" S.A. Capital Group
 Consolidated financial statements for the accounting year ending on 31 December 2016
 (as per the IFRS of the EU, in PLN k)

Quality of leasing agreements portfolios

Gross value	31.12.2016	31.12.2015
Non- past due	350 659	330 033
Past due	3 365	1 894
	354 024	331 927

Impairment charges	31.12.2016	31.12.2015
Past due	(3 365)	(1 884)

Net value	31.12.2016	31.12.2015
Non- past due	350 659	330 033
Past due		10
	350 659	330 043

Age structure of trade receivables

Gross value	31.12.2016	31.12.2015
Non- past due	19 242	16 050
Past due from 1 to 30 days	76	-
Past due from 31 to 60 days	19	-
Past due from 61 to 180 days	15	-
Past due from 180 days to 1 year	83	30
Past due above 1 year	37	8
	19 472	16 088

Impairment charges	31.12.2016	31.12.2015
Non- past due	(4)	-
Past due from 1 to 30 days	(3)	-
Past due from 31 to 60 days	(2)	-
Past due from 61 to 180 days	(15)	-
Past due from 180 days to 1 year	(86)	(30)
Past due above 1 year	(37)	(8)
	(147)	(38)

Net value	31.12.2016	31.12.2015
Non- past due	19 235	16 050
Past due from 1 to 30 days	73	-
Past due from 31 to 60 days	17	-
	19 235	16 050

Change in the balance of impairment charges on loans and receivables	31.12.2016	31.12.2015
Opening balance	(38)	(8)
Impairment charge recognized in reporting term	(109)	(30)
Closing balance	(147)	(38)

Concentration of credit risk triggered by leasing agreements, by top exposures	31.12.2016	31.12.2015
Customer A	13 890	52 849
Customer B	10 619	11 096
Customer C	3 695	4 926
Customer D	1 137	2 274
Customer E	6 439	19 053
Other	<u>35 780</u>	<u>90 198</u>

Liquidity risk

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

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

In case of delays in the repayment of mature leasing receivables, the Capital Group can use funds from available overdraft limits.

	Current value	Total cash flows from agreement	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	from 1 to 5 years	Above 5 years
As at 31.12.2016							
Financial instruments measured at fair value through profit or loss	-	-	-	-	-	-	-
Loans and receivables, including:	450 356	510 029	56 049	69 301	94 857	225 220	63 802
<i>leasing agreements</i>	350 659	407 762	10 618	30 963	92 010	217 049	57 122
<i>granted loans</i>	35 780	38 350	299	20 360	2 840	8 171	6 680
<i>trade receivables and other cash and cash equivalents</i>	21 858	21 858	21 858	17 978	7	-	-
<i>Investments held to maturity</i>	22 216	22 216	22 216	-	-	-	-
Other financial liabilities, including:	-	-	-	-	-	-	-
<i>liabilities under loans and credits</i>	(524 155)	(568 590)	(57 059)	(32 074)	(126 953)	(280 949)	(70 555)
<i>other liabilities</i>	(485 227)	(529 662)	(37 464)	(31 893)	(125 174)	(263 576)	(70 555)
	<u>(35 883)</u>	<u>(35 883)</u>	<u>(16 550)</u>	<u>(181)</u>	<u>(1 779)</u>	<u>(17 373)</u>	<u>-</u>
	<u>(90 597)</u>	<u>(75 359)</u>	<u>977</u>	<u>19 249</u>	<u>(32 103)</u>	<u>(55 729)</u>	<u>(6 753)</u>

Cash flows from the agreement were determined based on interest rates applicable as at 31 December 2016.

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

In the cash flows, the Capital Group did not include the cash flows from agreements on the lease of tangible fixed assets which were financed with loans. The current value of tangible fixed assets leased out in the financial sector totals PLN 28,925k as at 31 December 2016 and it generates the annual cash flows of PLN 6,063k, while in the power sector it totals PLN 4,467k and it generates the annual cash flows of PLN 559k. Moreover, every year liabilities arising from loans and credits also include the value of debt securities, which in practice are taken forward to the next accounting periods.

FX risk

Foreign currency risk is triggered by the potential changes in cash flows generated by the Capital Group, such changes caused by fluctuations of exchange rates of foreign currencies in which the cash flows figures are expressed.

Apart from transactions related to the purchase of CO₂ emission allowances, the Group is not exposed to the fx risk arising from buy or sell transactions in various foreign currencies as transactions related to the Group's business activity are made on the domestic market, in the domestic currency.

During the reporting period, the Capital Group did not make transactions hedging the foreign currency risk.

Interest rate risk

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

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

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

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

The Capital Group does not apply any additional instruments hedging the interest rate risk.

Structure of interest bearing financial instruments

	31.12.2016	31.12.2015
Instruments based on variable interest rate		
Loans and receivables, including:	408 655	430 437
<i>leasing agreements</i>	350 659	330 043
<i>granted loans</i>	35 780	90 198
<i>cash and cash equivalents</i>	22 216	10 196
Other financial liabilities, including:	(435 087)	(485 546)
<i>liabilities under loans and credits</i>	(435 087)	(485 546)
<i>other liabilities</i>	-	-
	<u>(26 432)</u>	<u>(55 109)</u>
Instruments based on fixed interest rate		
Loans and receivables, including:	21 858	17 644
<i>trade receivables and other</i>	21 858	17 644
Other financial liabilities, including:	(86 023)	(42 047)
<i>liabilities under loans and credits</i>	(50 140)	-
<i>other liabilities</i>	(35 883)	(42 047)
	<u>(64 165)</u>	<u>(24 403)</u>

Assets and liabilities based on variable interest rate

	31.12.2016	31.12.2015
Assets		
Receivables based on WIBOR	386 439	420 241
Liabilities		
Liabilities based on WIBOR	(435 087)	(485 546)
Gap		
Receivables - liabilities based on WIBOR	(48 648)	(65 305)

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

A change of interest rate by 100 base points would translate into reduction of equity and profit before tax by PLN 264k. The below-presented analysis was made at the assumption that other variables would remain unchanged.

Elektrociepłownia "Będzin" S.A. Capital Group
 Consolidated financial statements for the accounting year ending on 31 December 2016
 (as per the IFRS of the EU, in PLN k)

	Equity without profit or loss in current period	Profit or loss in current period
31.12.2016		
WIBOR (growth by 100 pb)	-	(264)
31.12.2015		
WIBOR (growth by 100 pb)	-	(551)

Assets and liabilities based on fixed interest rate

	31.12.2016	31.12.2015
Assets		
Receivables in PLN	21 858	17 644
Liabilities		
Liabilities in PLN	(86 023)	(42 047)
Gap		
Receivables - liabilities in PLN	(64 165)	(24 403)

37 Fair value of financial instruments

Principles of determining the fair value are described in note 9.

Hierarchy of financial instruments measured at fair value

The table below presents the analysis of financial instruments measured at fair value, depending on the applied valuation method. The following data inputs underlie the valuation method, depending on the valuation level:

- Level 1: inputs are quoted (non-adjusted) market price in an active market for identical assets and liabilities,
- Level 2: inputs other than quoted market prices applied at Level 1, observable for identical or similar assets and liabilities both directly (e.g. as prices) or by correlation (e.g. derivative of reserves),
- Level 3: inputs are unobservable market prices (unobservable inputs).

Comparison of fair value to book value

	Current value	Fair value	Hierarchy level
As at 31.12.2016			
Loans and receivables, including:	430 513	429 324	
<i>leasing agreements</i>	350 659	349 470	3
<i>granted loans</i>	35 780	35 780	3
<i>trade receivables and other</i>	21 858	21 858	3
<i>cash and cash equivalents</i>	22 216	22 216	3
Other financial liabilities, including:	(449 344)	(448 214)	
<i>liabilities under loans and credits</i>	(485 227)	(484 097)	3
<i>other liabilities</i>	35 883	35 883	3
	(18 831)	(18 890)	

	Current value	Fair value	Hierarchy level
As at 31.12.2015			
Loans and receivables, including:	448 081	446 380	
<i>leasing agreements</i>	330 043	328 342	3
<i>granted loans</i>	90 198	90 198	3
<i>trade receivables and other</i>	17 644	17 644	3
<i>cash and cash equivalents</i>	10 196	10 196	3
Other financial liabilities, including:	(527 593)	(526 197)	
<i>liabilities under loans and credits</i>	(492 773)	(491 336)	3
<i>trade and other liabilities</i>	(34 820)	(34 861)	3
	(79 512)	(79 817)	

Interest rates applied when measuring fair value

- receivables from leasing transactions – 4.48%
- loans provided – 4.54%
- liabilities arising from loans and credits – 3.74%

38 Explanations to the cash flows statement

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

Change in the balance of receivables from leasing agreements	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
Change in the balance sheet value of receivables from leasing agreements	(20 616)	330 043
Receivables from leasing agreements acquired in effect of purchased business units	-	336 361
Change in the balance of receivables from leasing agreements	(20 616)	6 318

Change in the balance of granted loans	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
Change in the balance sheet value of granted loans	54 418	90 198
Granted loans acquired in effect of purchased business units	-	49 179
Change in the balance of granted loans	54 418	(41 019)

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

Change in the balance of trade and other liabilities	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
Change in the balance sheet value of trade and other liabilities	836	19 977
Trade and other liabilities acquired in effect of purchased business units	-	(5 756)
Change in the balance of investment liabilities	4 206	(2 651)
Deferred liabilities with discount effect related to purchased shares in ETF-L ENERGO- UTECH SA	-	(12 249)
Change in the balance of trade and other liabilities	5 042	(679)
	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
Change in the balance of trade and other receivables	(14 087)	1 018
Trade and other receivables acquired in effect of purchased business units	-	18 587
Advance payments for purchase of shares	-	(6 500)
Other	482	-
Change in the balance of trade and other receivables	(13 605)	13 105
	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
Change in the balance sheet value of provisions and liabilities under employee benefits	4 325	5 249
Liabilities under employee benefits acquired in effect of purchased business units		582
Change in the balance of provisions recognized in defined benefit programme revaluation reserve	266	(630)
Other adjustments	(123)	
Change in the balance of provisions and liabilities under employee benefits	4 468	5 201
	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
Current income tax	(2 799)	(3 321)
Change in the balance of income tax receivables	871	42
Tax paid recognized in cash flows statement	(1 928)	(3 279)

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
Expenditures on tangible fixed assets under construction	(59 676)	(63 950)
Change in the balance of investment liabilities	(4 206)	2 651
Investment liabilities settled directly by lending bank	43 330	33 333
Other	(545)	(727)
Purchase tangible fixed assets	(21 097)	(28 693)

	01.01.2016 - 31.12.2016	01.01.2015- 31.12.2015
Share or stock purchase price	(659)	(48 044)
Advance payment for purchase of shares made in 2014	-	6 500
Amount settled through inflows from bonds issue through investment firm	-	24 800
Deferred payment, recognized in long-term trade and other liabilities	-	11 700
Cash acquired through acquisition of shares in ETFL Energo-Utech S.A.	-	663
Purchased shares	(659)	(4 381)

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

On 3 June 2015, Elektrociepłownia BĘDZIN Sp. z o.o. signed annex to contract no. 99/EC/2014 made with SBB Energy S.A. on the delivery of project "Construction of flue gas desulphurisation and denitrogenation installation". The total value of the investment was estimated at PLN 130m. As at 31 December 2016, the total value of capital expenditures incurred on the above agreement amounted to PLN 105.4m.

40 Conditional liabilities and proceedings pending before court

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

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

On 19 November 2014, Energetyczne Towarzystwo Finansowo- Leasingowe Energo-Utech SA (subsidiary) brought a case for the payment of claim arising from recourse factoring, said claim of PLN 679.5k.

On 30 January 2015, order for payment under the writ of payment proceedings was ruled thus obligating the supplier and the debtor to pay to Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech SA the amounts due plus interest accrued by the maturity date. The supplier did not appeal against the aforementioned order for payment and on 11 June 2015, motion for initiation of execution proceedings was filed. The execution proceedings are managed by the Court Bailiff. According to information provided by the bailiff firm, the debtor has substantial debt towards numerous entities, hence the debt pursue may be difficult.

The debtor's company appealed against the order for payment and the court proceedings are pending before the District Court in Poznań. As the court proceedings are pending, at this stage it is difficult to determine the adjudication on the case for assessment of financial implications.

41 Operating lease, rent and lease agreements

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

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

	31.12.2016	31.12.2015
up to 1 year	43	42
from 1 to 5 years	102	145
	<u>145</u>	<u>187</u>

The leased asset is a passenger car. The agreement was made for 3 years, at variable interest rate with the option to purchase the leased asset after the expiry of the term of the agreement.

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

	31.12.2016	31.12.2015
up to 1 year	11 683	5 205
from 1 to 5 years	21 777	32 017
above 5 years	1 350	2 236
	<u>34 810</u>	<u>39 458</u>

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

42 Transactions with connected entities

Transactions with persons holding managerial or supervisory positions

During the reporting period ending on 31 December 2016, no advances, loans, credits, guarantees or other liability-raising agreements were provided or made with persons holding managerial or supervisory positions, their spouses, or persons related to them by blood or by marriage.

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

	31.12.2016	31.12.2015
Base salary	416	326
Bonus	299	248
	<u>715</u>	<u>574</u>

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

Other transactions with connected entities

As at 31.12.2016	Receivables	Liabilities
MDW Glanowski	-	11 728
Krzysztof Kwiatkowski	-	296
Waldemar Organista	-	4 853
Autodirect S.A.	4	-
Promobil Fleet Sp. z o. o.	271	-
	275	16 877

For the period of 01.01.2016- 31.12.2016	Purchased services	Other purchases
MDW Glanowski	-	487
	-	487

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

As at 31.12.2015	Receivables	Liabilities
CHP Partners sp. z o. o.	-	12 249
SGB Leasing sp. z o. o.	2 540	12 132
MDW Glanowski	-	8 805
	2 540	33 186

Receivables from SGB Leasing Sp. z o.o. are represented mainly by long-term loans of PLN 2,500k and liabilities arising from financial lease o PLN 12,133k.

As at 31.12.2015	Sales of products	Other income
SGB Leasing sp. z o. o.	463	-
	463	-

As at 30.09.2015	Purchased services	Other purchases
SGB Leasing sp. z o. o.	55	-
Przedsiębiorstwo Usługowe "UTECH" Sp. z o.o.	-	28 160
	55	28 160

Other purchases are mostly purchases of part of shareholding in Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A – for more information see note 11.

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

43 Events after the balance sheet date

No significant events occurred after the balance sheet date that would have a major impact on the current business activity of the Capital Group.

44 Manpower

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

Elektrociepłownia "Będzin" S.A. Capital Group
Consolidated financial statements for the accounting year ending on 31 December 2016
(as per the IFRS of the EU, in PLN k)

	31.12.2016	31.12.2015
Production staff	89	92
Office staff	79	80
	<u>168</u>	<u>172</u>

45 Remuneration of entity authorised to audit the financial statements

In 2016, pursuant to agreements of 29 June 2016 on examination of consolidated and non-consolidated financial statements and on examination of semi-annual consolidated and non-consolidated financial statements, the entity authorised to examine financial statements was KPMG Audyty Sp. z o.o. Sp. k. with the registered office in Warsaw at ul. Inflancka 4a (National Court Register registration no. KRS 0000339379). The contractual remuneration totalled PLN 45k plus VAT.

In 2015, pursuant to agreement of 3 July 2015 on examination of financial statements and on examination of semi-annual financial statements, the entity authorised to examine financial statements was KPMG Audyty Sp. z o.o. Sp. k. with the registered office in Warsaw at ul. Inflancka 4a (National Court Register registration no. KRS 0000339379). The contractual remuneration totalled PLN 72k plus VAT.

46 Approval of consolidated financial statements

These consolidated financial statements were produced and approved for publication by the Management Board of the dominant entity on 21 March 2017.



**Management Board Report
on the activity of
Elektrociepłownia "Będzin" S.A.
Group in 2016**

Contents

1. Introduction.....	4
2. Essential information about Elektrociepłownia "Będzin" S.A. Group.....	4
2.1. <i>Main data of the dominant entity and the Capital Group.....</i>	<i>4</i>
2.2. <i>Ownership structure of Elektrociepłownia "Będzin" S.A. Group.....</i>	<i>5</i>
3. Composition of management and supervisory authorities of Elektrociepłownia "Będzin" S.A. Group.....	6
3.1. <i>Authorities of Elektrociepłownia "Będzin" S.A. (dominant entity).....</i>	<i>6</i>
Audit Committee.....	6
3.2. <i>Authorities of Elektrociepłownia BĘDZIN Sp. z o. o. (subsidiary).....</i>	<i>6</i>
3.3. <i>Authorities of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. (subsidiary).....</i>	<i>7</i>
4. Manpower in Elektrociepłownia "Będzin" S.A. Group in the years 2015-2016.....	7
4.1. <i>Manpower in Elektrociepłownia "Będzin" S.A. (dominant entity).....</i>	<i>7</i>
4.2. <i>Manpower in Elektrociepłownia BĘDZIN Sp. z o.o. (subsidiary).....</i>	<i>7</i>
4.3. <i>Manpower in Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. (subsidiary).....</i>	<i>8</i>
4.4. <i>Payroll system in Elektrociepłownia "Będzin" S.A. Group.....</i>	<i>8</i>
5. Payroll in Elektrociepłownia "Będzin" S.A. Group in 2016.....	8
<i>The remuneration and charges applicable in Elektrociepłownia "Będzin" S.A. (the dominant entity) in 2016 with regard to the management authorities.....</i>	<i>8</i>
6. Economic and financial standing of Elektrociepłownia "Będzin" S.A. Group.....	9
6.1. <i>Economic and financial standing.....</i>	<i>9</i>
6.2. <i>Financial performance.....</i>	<i>10</i>
6.3. <i>Liquidity and debt ratios in Elektrociepłownia "Będzin" S.A. Group in 2015-2016.....</i>	<i>11</i>
7. Main risks and threats, characteristics of external and internal factors important for the development of Elektrociepłownia "Będzin" S.A. Group.....	11
7.1. <i>Development prospects.....</i>	<i>11</i>
7.2. <i>Risk of competition in the power sector.....</i>	<i>11</i>
7.3. <i>Risk of competition in the financial (leasing) sector.....</i>	<i>12</i>
8. Proceedings before court, competent arbitration authority or public administration authority	12
9. Information about products generated by or services provided by entities of Elektrociepłownia "Będzin" S.A. Group.....	13
The second subsidiary – Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. operates as service provider in the financial segment, focusing on the lease of fixed assets and factoring services.	13
10. Information about main sale markets, supply sources and key customers of Elektrociepłownia "Będzin" S.A. Group.....	14
10.1. <i>Sale markets.....</i>	<i>14</i>
10.2. <i>Sources of production input, goods and services.....</i>	<i>14</i>
10.3. <i>Main off-takers.....</i>	<i>14</i>
11. Information about valid agreements, significant for the activity of the Group entities in 2016	15

12. Information about organisational or capital connections of the Capital Group with other entities	16
13. Information about significant non arm's length transactions made by the Capital Group with connected entities	16
14. Information about signed and terminated agreements on loans and credits	16
15. Information about loans provided in the financial year, in particular loans to connected entities	17
16. Information about bonds and warranties provided and received in the financial year, in particular guarantees and suretyships provided to connected entities.....	17
17. Explanation of differences between financial results presented in the annual report and previously published annual projections	17
18. Assessment and justification of resources management, in particular the capacity to settle liabilities	18
19. Assessment of feasibility of investment plans, including equity investments, in comparison to available funds	18
20. Characteristics of external and internal factors significant to the development of the Capital Group and description of prospects for the development of the Group.....	20
21. Changes in the main principles of managing the enterprise in the Capital Group's entities ...	23
22. Agreements between the Group's entities and persons holding managerial positions, providing for compensation in case of their resignation or dismissal from positions without material reasons, or when their removal or dismissal results from the dominant entity's merger through acquisition.....	23
23. The value of remuneration, awards or benefits, including those resulting from incentive or bonus schemes on the Group's equity	23
24. Total number and nominal value of all shares	23
25. Information about agreements known to the Capital Group (including those entered into after the balance sheet date) whereby the holding of current shareholders and bondholders may change in the future	24
26. Information about the employee stock ownership plan control systems	24
27. Information about entity authorised to audit the financial statements of the dominant entity and other entities in the Capital Group	24
28. Additional information	25
28.1. <i>Natural environment issues.....</i>	25
<i>Emission of pollution to the atmosphere.....</i>	25
<i>Trade in emission allowances</i>	25
<i>Integrated permit.....</i>	25
<i>Environment protection audits.....</i>	26
28.2. <i>Actions towards the local community of Elektrociepłownia "Będzin" S.A. Group, sponsoring and donations.....</i>	26
28.3. <i>Quality assurance system audits</i>	27
28.4. <i>Events after the balance sheet date.....</i>	27
Appendix 1 to Management Board Report on the activity of Elektrociepłownia Będzin S.A. Group in 2016: Declaration on Corporate Governance	31

1. Introduction

The Management Board of Elektrociepłownia Będzin S.A. hereby presents the Management Board Report on Elektrociepłownia "Będzin" S.A. Group Activity the accounting year 2016. The Report was prepared on the basis of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2014.133, standardised text).

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

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

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

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

The associated entity is ProMobil Fleet Sp. z o.o. with the registered office at ul. Karola Libelta 29/8, 61-707 Poznań, in which on 30 June 2016, by force of agreements, the dominant entity acquired 54 shares representing 40% of all shares.

On 13 July 2017 by force of the agreements, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. (a subsidiary) sold all its shares in SGB Leasing Sp. z o.o., i.e. 19,996 shares for the total amount of PLN 9,650k.

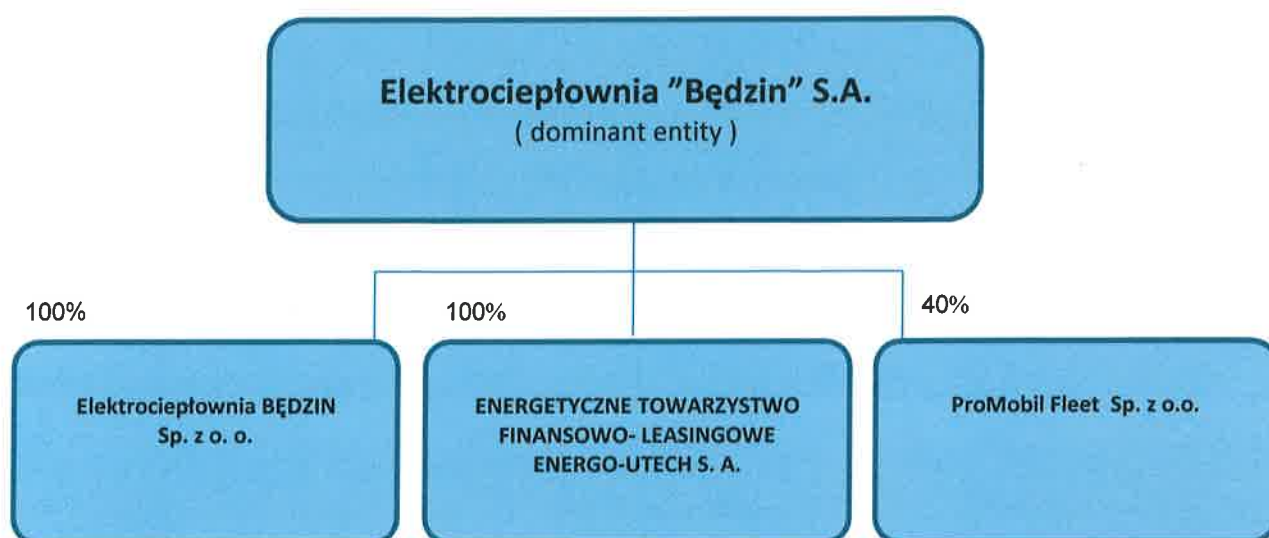
The dominant entity is a holding company. The activity in the field of cogeneration through combined heat and power (CHP) is carried out in the subsidiary, Elektrociepłownia BĘDZIN Sp. z o.o., while the financial services, mainly leasing, is carried out in the subsidiary, Energetyczne Towarzystwo Finansowo-Leasingowe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

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

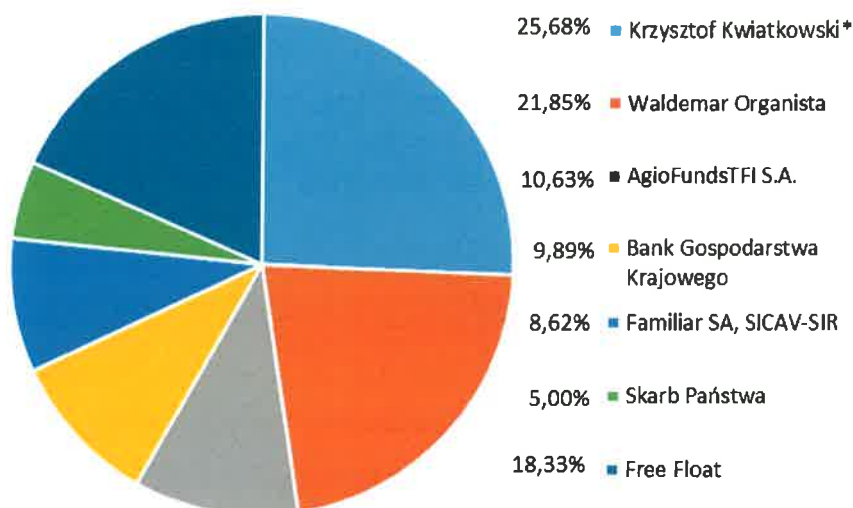
- Generation and delivery of steam, hot water and air for air-conditioning systems,
- Generation of electricity,
- Financial lease,
- Other financial services.

As stipulated by art. 55 of the Accounting Act, the Capital Group produces consolidated financial statements of the Capital Group in accordance with the International Financial Reporting Standards approved by the European Union and in accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2014.133, standardised text), based on financial statements of units within the Capital Group. Pursuant to art. 57(1), subsidiaries are fully consolidated. It means that individual items of financial statements are summed up in full amount and then, mutual transactions made between units of the Capital Group are excluded.

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



Mix of shareholders of the dominant entity as at 31 December 2016:



*including subsidiaries

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

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

Management Board

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

As at 31 December 2016, composition of the Management Board was as follows:

Krzysztof Kwiatkowski – President

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

Supervisory Board

As at 31 December 2016, the Supervisory Board was composed of the following six individuals:

- | | | |
|----|----------------------|---|
| 1. | Janusz Niedźwiecki | - Chairman of the Supervisory Board, |
| 2. | Waldemar Organista | - Deputy Chairman of the Supervisory Board, |
| 3. | Wiesław Glanowski | - Member of the Supervisory Board, |
| 4. | Józef Piętoń | - Member of the Supervisory Board, |
| 5. | Grzegorz Kwiatkowski | - Member of the Supervisory Board, |
| 6. | Maciej Węgorzewicz | - Member of the Supervisory Board, |

Audit Committee

In 2016 year, the composition of the Audit Committee was as follows:

1. Janusz Niedźwiecki
2. Waldemar Organista
3. Józef Piętoń

The Audit Committee was managed by its Chairman - Janusz Niedźwiecki.

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

Management Board

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

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

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

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

Management Board

According to the principles outlined in the Company's Statute, the Management Board is composed of 1 to 4 Members. President and Vice-Presidents of the Management Board are appointed by the General Meeting of Shareholders. The collective term of office of the Management Board is 3 years.

As at 31 December 2016, composition of the Management Board was as follows:

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

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

Supervisory Board

As at 31 December 2016, the Supervisory Board was composed of the following four individuals:

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

4. Manpower in Elektrociepłownia "Będzin" S.A. Group in the years 2015-2016

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

Specification	Staff numbers as at 31.12.2016	Staff numbers as at 31.12.2015
Total manpower including:	5	5
Administration	1	1
Management Board	4	4

In 2016, the following personnel changes were noted:

- employments and appointments – 2 persons under the Labour Code,
- dismissals and removals - 2 persons on the basis of Article 30§1 of the Labour Code – mutual consent.

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

Specification	Staff numbers as at 31.12.2016	Staff numbers as at 31.12.2015
Total manpower including:	141	142
Administration	2	2
Management Board	32	31
Engineering-technical employees	19	19
Production employees	15	19
Direct production employees	73	71

In 2016, the following personnel changes were noted:

- a) employments and appointments – 2 persons under the Labour Code,
- b) dismissals and removals – 3 persons, including:
 - 1 person on the basis of Article 30 §1(1) of the Labour Code – mutual consent, retirement,
 - 2 persons on the basis of Article 53 §1(1b) of the Labour Code – rehabilitation and pension benefits.

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

Specification	Staff numbers as at 31.12.2016	Staff numbers as at 31.12.2015
Total manpower including:	19	22
Administration	3	3
Management Board	16	19

In 2016 the following personnel changes were noted:

- a) employments and appointments – 3 persons under the Labour Code,
- b) dismissals and removals – 6 persons.

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

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

Elektrociepłownia BĘDZIN Sp. z o.o. observes the Remuneration Regulations of 26 October 2015 approved by force of resolution no. 52/2015 of 4 November 2015.

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

5. Payroll in Elektrociepłownia "Będzin" S.A. Group in 2016

The remuneration and charges applicable in Elektrociepłownia "Będzin" S.A. (the dominant entity) in 2016 with regard to the management authorities.

Remuneration of the Management Board

Item	Name and surname	2016 Gross remuneration In PLN k	2015 Gross remuneration In PLN k
1.	Kwiatkowski Krzysztof	12.0	12.4
	TOTAL	12.0	12.4

Remuneration of the Supervisory Board

Item	Name and surname	2016 Gross remuneration In PLN k	2015 Gross remuneration In PLN k
1.	Niedźwiecki Janusz	51.7	51.6
2.	Organista Waldemar	45.7	45.6
3.	Glanowski Wiesław	45.7	45.6
4.	Piętoń Józef	45.7	45.6
5.	Solarczyk Maciej	22.7	45.6
6.	Kwiatkowski Grzegorz	23.6	-
7.	Węgorkiewicz Maciej	23.3	-
8.	Andrzejewski Adam	-	20.0
	TOTAL	258.4	254.0

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

Average monthly remuneration (excluding remuneration of the Management Board) in the Company in the years 2015-2016

Payroll fund	Average monthly remuneration, excluding remuneration of the Company's Management Board, in PLN/ month	
	2016	2015
Total remuneration	4.12	8.01
Remuneration without severance payment	4.12	7.80
Remuneration without interim payments *	4.12	6.94

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

The total value of remuneration, including awards, of the dominant entity's management authorities for the performance of their roles in the authorities of the subsidiaries, was PLN 715k.

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

6.1. Economic and financial standing

Specification (in PLN k)	2016	2015
Fixed assets	524 425	476 117
Current assets, including:	202 161	229 288
Inventory	27 027	33 467
Short-term receivables	129 936	113 959
Cash and equivalent	22 216	10 196
Equity	155 739	136 097
Long-term liabilities	374 313	352 520
Short-term liabilities	196 534	216 788
Balance sheet total	726 586	705 405

Fixed assets change drivers (up PLN 48.308k):

- The growth in the tangible fixed assets was witnessed mainly in the power segment, in effect of capital expenditures incurred on the delivery of investment consisting in the "Construction of flue gas desulphurisation and denitrogenation installation for boilers: OP-140 no. 6, OP-140 no. 7 and WZP-70 no. 5",
- The growth in long-term leasing liabilities was caused by the delivery of a leasing agreement by ECB S.A.

Current assets change drivers (down PLN 27,127k) – primarily:

- Reduction of receivables in the financial segment - Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. – driven by a significant reduction in the use of factoring services,

Long-term liabilities change drivers (up PLN 21,793k):

- Growth in credit liabilities related to financing of the leasing activity of Elektrociepłownia "Będzin" S.A. and Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.

6.2. Financial performance

The table below presents the highlights of consolidated profit and loss account and income statement influencing the financial performance of Elektrociepłownia "Będzin" S.A. Group in 2016 versus comparable data of the previous year.

Specification (in PLN k)	2016	2015
Revenues	190 469	164 877
Other operating revenues	3 406	6 590
Other costs by type	-140 329	-132 276
Value of goods and materials sold	-4 401	-2 015
Other operating expenses	7 733	4 990
Profit (loss) on operating activities	41 412	32 186
Financial revenues	3 902	1 445
Financial expenses	-20 812	-16 049
Profits (losses) of subsidiaries accounted for using the equity method		399
Profit (loss) on business activities	24 502	17 981
Income tax	-5 043	-3 533
Net profit (loss)	19 459	14 448

Elektrociepłownia "Będzin" S.A. Group closed financial year 2016 with net profit of PLN 19,459k. It encompasses profit of PLN 18,302k generated in the power segment and profit of 1,157k generated in the financial segment.

Elektrociepłownia "Będzin" S.A. Group net profit (up PLN 5,011k) change drivers include:

- Growth of revenues from the sale of heat and electricity as well as electricity certificates in the power segment, by PLN 13,637k, caused by higher sales volumes and higher sales prices, including sales of heat higher by PLN 7,193k, as well as, sales of electricity and electricity certificates higher by PLN 6,444k,
- Lower costs of production fuel in the power segment, by PLN 4,427k, caused by negotiations with suppliers which led to cutting the purchase prices of production fuels versus 2015,
- Higher cost of use of CO₂ emission allowances, totalling PLN 3,335k arising from the necessity to CO₂ emission allowances at market prices due to insufficient portion of free of charge CO₂ emission allowances.

6.3. Liquidity and debt ratios in Elektrociepłownia "Będzin" S.A. Group in 2015-2016

Ratios	2016	2015
Total debt¹	0,79	0,81
Long-term debt²	2,40	2,59
Quick liquidity³	0,89	0,90
Current liquidity⁴	1,03	1,06

1. total liabilities to total assets

2. long-term debt to equity

3. current assets less inventory to short-term liabilities

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

The liquidity and debt ratios do not differ from the ratios recorded in the previous accounting period.

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

7.1. Development prospects

The Group's 2015-2017 development strategy was formulated around determination of response to fluctuating market environment and around prediction of events which may have a major impact on the Capital Group and effective management of resources.

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

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

- value increase for stockholders,
- continuation of environment investments securing the production asset operation after 2017,
- investments within the scope of optimisation and increase of effectiveness of the heat and electric power production process in co-generation,
- reduction of the negative impact on the environment of the electric power and heat production process,
- increase of sale volume in the particular operating segments, with concurrent margin build-up,
- development of the product offer in the financial segment, addressed to a corporate client as well as units of the local government, with particular consideration given to investment leasing and accounts receivable purchase,
- establishment of long-term relations with the Clients,
- optimal use of the organisation's potential.

7.2. Risk of competition in the power sector

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

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

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

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

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

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

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

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

The Company's strong market position and efficiency of the adopted business model is reflected in the financial history. For 20 years of its operations, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. has never recorded net loss.

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

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

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

On 19 November 2014, Energetyczne Towarzystwo Finansowo- Leasingowe Energo-Utech SA (subsidiary) brought a case for the payment of claim arising from recourse factoring.

On 30 January 2015, order for payment under the writ of payment proceedings was ruled thus obligating the supplier and the debtor to pay to Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech SA the amounts due plus interest accrued by the maturity date. The supplier did not appeal against the aforementioned order for payment and on 11 June 2015, motion for initiation of execution proceedings was filed. The execution proceedings are managed by the Court Bailiff. According to information provided by the bailiff firm, the debtor has substantial debt towards numerous entities, hence the debt pursue may be difficult.

The debtor's company appealed against the order for payment and the court proceedings are pending before the District Court in Poznań. As the court proceedings are pending, at this stage it is difficult to determine the adjudication on the case for assessment of financial implications.

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

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

The production structure in 2014 and 2015 was as follows:

Production	Unit	2016	2015
Heat in water	GJ	2 102 787	1 958 597
Heat in steam	GJ	287 934	287 000
Electric power	MWh	465 777	432 499

The quantitative sale structure in 2015 and 2016 was as follows:

Sale	Unit	2016	2015
Heat	GJ	2 122 772	1 971 726
Electric power from own production	MWh	403 670	376 987

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

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

Revenues(in PLN k)	01.01.2016- 31.12.2016	01.04.2015- 31.12.2015
Revenues from leasing services	21 227	15 647
Revenues from factoring services	2 582	2 667
Revenues from rental services	6 063	4 692
Revenues from loans provided	1 653	1 290
Other revenues	1 694	994
Total	33 219	25 290

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

10.1. Sale markets

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

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

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

10.2. Sources of production input, goods and services

Hard coal

Katowicki Holding Węglowy S.A.	175 046.38 Mg	65.20 %
B.B.-POL	45 944.16 Mg	17.10 %
HALDEX S.A.	21 129.86 Mg	7.90 %
POLBRAND	19 294.84 Mg	7.20 %
MEDEX	6 951.92 Mg	2.60 %

Water

Rejonowe Przedsiębiorstwo Wodociągów i Kanalizacji w Sosnowcu S.A.	225 544 m ³	100 %
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Funding

From the beginning of its operations, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. has been closely cooperating with banks in terms of financing the business activity through loans and credits. As at 31 December 2016, total liabilities arising from said loans and credits were PLN 419,869k.

Main financing banks:

PEKAO S.A.	PLN 233,415k
ALIOR BANK S.A.	PLN 53,867k
PKO BP S.A.	PLN 38,200k

10.3. Main off-takers

Electric power off-takers

TAURON Polska Energia S.A.	193 916.0 MWh	48.40%
GET EnTra Sp. z o.o.	11 812.0 MWh	6.10%
Towarowa Giełda Energia S.A.	195 299.8 MWh	45.50%

Heat off-takers

TAURON Ciepło Sp. z o.o.	2 078 954 GJ	97.90%
Wojewódzki Szpital Specjalistyczny nr 5 im. Św. Barbary	43 818 GJ	2.10 %

Financial service customers

Elektrociepłownia Będzin Sp. z o.o.	2 agreements totalling PLN 71m
Elbudprojekt sp. z o.o.	10 agreements totalling PLN 59m
Sylwester Komisarek P.W. „Inter-KomTrans”	19 agreements totalling PLN 37m
„WARBUS” Sp. z o.o.	5 agreements totalling PLN 27m

11. Information about valid agreements, significant for the activity of the Group entities in 2016

Insurance agreements

In 2016, entities of the Group had property insurance policies with the total insurance premium paid of PLN 236k (PLN 188k Elektrociepłownia BĘDZIN Sp. z o.o. and PLN 48k Energetyczne Towarzystwo Finansowo Leasingowe Energo-Utech S.A.). In particular, the insurance policies covered:

- All risk property insurance,
- Machines and equipment breakdown insurance,
- Electronic devices insurance,
- Passenger car insurance,
- General liability insurance.

Leasing agreements

On 22 December 2014, Elektrociepłownia BĘDZIN Sp. z o.o. and Energetyczne Towarzystwo Finansowo–Leasingowe Energo-Utech S.A. entered into leasing agreement on flue gas desulphurisation installation for boilers OP-140 no. 6, OP-140 no. 7 and WZP-70 no. 5 (Installation "A"), flue gas denitrification installation for boiler: OP 140 no. 7 (Installation "B"), flue gas denitrification installation for boiler: OP 140 no. 6 (Installation "C") and flue gas denitrification installation for boiler: WP-70 no. 5 (Installation "D"). On 28 November 2016, the parties signed annex no. 4 as a result of replacement of the leased asset, consisting in exclusion of buildings and structures as well as modernisation from the scope of the foregoing leasing agreement. In effect of said changes, the final value of the leased asset is PLN 96 779k.

On 30 November 2016, the investment consisting in the flue gas desulphurisation installation for boilers OP-140 no. 6, OP-140 no. 7 and WZP-70 no. 5, as well as, the flue gas denitrification installation for boiler: OP 140 no. 7 was completed and handed over for use. The investment value is PLN 71 208k.

Moreover, due to continuation of the investment represented by flue gas denitrification installation for boilers: OP 140 no. 6 and WP-70 no. 5, Elektrociepłownia Będzin Sp. z o.o. has the debt of PLN 4 795k.

According to annex of 18 August 2016 to the leasing agreement, the debt of Elektrociepłownia Będzin Sp. z o.o. (subsidiary) arising from VAT loan totals PLN 6 000k as at 31 December 2015.

Loan agreements

Funds for financing the aforementioned leasing agreement were acquired by Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. in effect of signing on 1 December 2014 the loan agreement for the total loan amount of PLN 98,492k.

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

In 2016, Mr Krzysztof Kwiatkowski, President of the Management Board of the dominant entity and Mr Waldemar Organisty, Member of the Supervisory Board of the dominant entity purchased shares of the dominant entity. In effect of the transaction, President of the Management Board of the dominant entity increased his share in the share capital of the dominant entity up to 25.68% (808,698 shares) and Member of the Supervisory Board of the dominant entity increased his share in the share capital of the dominant entity up to 21.85% (688,146 shares).

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

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

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

On 15 February 2016, Elektrociepłownia "Będzin" S.A. and ING Bank Śląski S.A. with the registered office in Katowice at ul. Sokolskiej 34, entered into a corporate PLN loan agreement on financing an investment and refinancing of incurred capital expenditures of PLN 21 649k. The loan agreement validity term is 15 February 2016 - 20 February 2023. The loan bears a variable interest rate set by the bank based on 1M WIBOR plus margin.

The loan collateral is:

- endorsement on bill of exchange issued by Tameh Polska Sp. z o.o.,
- registered pledge on machines and equipment,
- assignment of rights to machines and equipment,
- assignment of receivables arising from lease agreement and from sales order agreement concerning the subject of the investment.

As at 31 December 2016, Elektrociepłownia BĘDZIN Sp. z o.o. (subsidiary) recorded debt of PLN 71,208k arising from financial lease agreement signed with Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. entered into leasing agreement on investment consisting in the "Construction of flue gas desulphurisation and denitrogenation installation for boilers: OP-140 no. 6, OP-140 no. 7 and WZP-70 no. 5".

Funds for delivering the foregoing investment of Elektrociepłownia BĘDZIN Sp. z o.o. were acquired in effect a loan agreement signed on 16 December 2014 by Bank Polska Kasa Opieki S.A. and Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.

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

In 2016, 20 loan agreements were signed in the total amount of PLN 99,185k. The said agreements were signed with PEKAO S.A. (PLN 21,973k), PKO BP S.A. (PLN 20,000k), ALIOR Bank S.A. (PLN 16,611k) and SGB Bank S.A. (PLN 17,908k).

In 2015, the Group entities signed and disbursed loan agreements in the total amount of PLN 169,486k, of which Energetyczne Towarzystwo Finansowo Leasingowe Energo-Utech S.A. PLN 147,837k and Elektrociepłownia "Będzin" S.A. of PLN 21,649k.

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

In 2016, the Group entities did not provide any loans either to connected entities or to entities from outside the Group.

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

On 31 March 2015, Elektrociepłownia BĘDZIN Sp. z o.o. (subsidiary) received performance bond and warranty for defects from STS Inżynieria Sp. z o.o. (contractor) in relation to delivery of investment project "Heating pipeline interconnecting the heating system of the town of Czeladź". The bond and warranty value is PLN 305.3k and the two expire on 31 July 2020.

On 15 June 2016, Elektrociepłownia Będzin Sp. z o.o. received performance bond no. GZ16-1660006 issued at the request of ABB Sp. z o.o. to guarantee due performance of the obligation referred to in the agreement 239/EC/2016 on DCS system modification. The said performance bond is worth PLN 111.9k and it will remain in force and effect until 30 December 2019.

On 4 November 2016, Elektrociepłownia Będzin Sp. z o.o. received performance bond for the agreement 99/EC/2014 signed with SBB Energy S.A. on the "Construction of flue gas desulphurisation and denitrogenation installation" totalling PLN 9 885.5k. The performance bond will remain valid till 19 November 2018.

On 17 November 2016, Elektrociepłownia Będzin Sp. z o.o. received performance bond and warranty for defects from Energomontaż Zachód Wrocław Sp. z o.o. up to PLN 32.75k. They apply to agreement no. 49/EC/2016 on "Comprehensive replacement of 3rd degree steam superheater for boiler OP-140 no. 6". The performance bond securing non-performance or undue performance of contractual works expires on 18 September 2017, while the warranty for defects securing non-elimination or improper elimination of physical defects or faults in the subject of the agreement expires on 18 September 2021, inclusive.

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

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

Entities of the Capital Group did not publish any projections of 2016 financial result.

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

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

Free cash flows are invested in bank deposits generating additional revenues in the form of interest.

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

Investment activity of Elektrociepłownia "Będzin" S.A. Group in 2016

In 2016, the Group delivered investment tasks in the amount of PLN 60,595k. The delivery of said investment tasks brought the expected technical-business and environmental effects, including:

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

On 4 November 2016, Stage I and IV of the investment project "Construction of flue gas desulphurisation installation for boilers: OP-140 no. 6, OP-140 no. 7 and WZP-70 no. 5" and Stage II of the investment project "Construction of flue gas denitrogenation installation for boiler: OP-140 no. 7 went through final acceptance test and were handed over for use.

Stage III of the investment project "Construction of flue gas denitrogenation installation for boiler: OP-140 no. 6" and Stage V of the investment project "Mechanical draft cooling tower modernisation" are underway.

On 31 March 2016, Stage II of the "Mechanical draft cooling tower modernisation" project was handed over for use. It encompassed delivery of contract no. 100/EC/2014 in terms of cooling tower cell no. 5.

Between 30 May 2016 and 3 June 2016, warranty measurement readings for the cooling tower were performed by Zakłady Pomiarowo-Badawcze Energetyki "ENERGOPOMIAR" Sp. z o.o. in accordance with the contract in place.

On 8 January 2016, agreement no. 110/EC/2015 was signed with EKONOMIA Sp. z o.o. on delivery of project documentation for the water preparation station modernisation, including river water supply to water tanks.

The new demineralisation installation will ensure full automation of technological processes covering one water demineralisation technological line, regeneration, rinsing and stagnation processes, which will be running automatically following manual initiation effected using computer keyboard by staff in the control room located in SPW building, in the former softening plant.

On 30 June 2016, by force of agreements in place, Elektrociepłownia "Będzin" S.A. purchased 54 shares in ProMobil Fleet Sp. z o.o. representing 40% of all shares.

On 13 July 2017, by force of agreements in place, Energetyczne Towarzystwo Finansowo Leasingowe ENERGO UTECH S.A. sole its entire shareholding in SGB Leasing Sp. z o.o., i.e. 19,996 shares for the total amount of PLN 9,650k.

The dominant entity manages the bond issuance carried out on 13 April 2015 pursuant to article 9(3) of the Act on Bonds of 29 June 1995 (Journal of Laws 2014.730, consolidated text, as amended) of the whole block of 3000 bearer dematerialised bonds, entitling only to cash benefits, said bonds non-secured, with 3Y redemption, unit nominal value of PLN 10k and total nominal value of all bonds of PLN 30,000.00k, however 50 bonds of the total value of PLN 500k were redeemed in 2015.

Investment activity planned by Elektrociepłownia "Będzin" S.A. Group in 2017

Capital expenditures on investment activity planned by the Capital Group in 2017 include:

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

In 2017, the Group's entity Elektrociepłownia BĘDZIN Sp. z o.o. plans to incur capital expenditures of PLN 33,883k on investments related to adjusting the Company to functioning after year 2017.

In 2017, the construction of flue gas denitrogenation installation will be continued. It aims at adjusting boilers OP-140 no. 6 and WZP-70 no. 5 installed in Elektrociepłownia BĘDZIN Sp. z o.o. to work in compliance with emission standards applicable to the power combustion installation within the scope of NO_x gas emission, said standards in force as of 1 January 2016, according to the requirements of the Directive of the European Parliament and of the Council 2010/75/EU of 24 November 2010 on industrial emissions (integrated pollution prevention and control), i.e. the so-called IED Directive, which introduces new emission standards within the scope of NO_x.

Another investment project scheduled for 2017 is the "Water Preparation Station Modernisation" based on project documentation prepared by EKONOMIA Sp. z o.o. in the technological, construction-development and electrical sectors as well as Control and Measurement Instruments and Automation, in terms of selection of project contractor and delivery of the investment project. The Water Preparation Station modernisation assumes utilisation of river, decarbonated water as the main water supply source for the Water Preparation Station, which will reduce the operational costs.

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

Repair activity of Elektrociepłownia "Będzin" S.A. Group in 2016

In 2016, the value of repair works performed was PLN 11 349k. Repairs of main production equipment scheduled for the aforementioned term included, amongst others: repairs of boilers OP-140 np. 7, OP-140 no. 6 and WP-70 no. 5 as well as ongoing repair of the turbine set 13UCK80 of 81,5 MW capacity.

Repair activity of Elektrociepłownia "Będzin" S.A. Group planned in 2017

Funds to be allocated to the repair activity in 2017 amount to PLN 10 721k. The planned activity includes on-going and medium repairs of the main production devices in order to ensure their availability in the heating season.

The planned scope of on-going repairs includes an overhaul of the steam boiler OP-140 no. 7 and water boiler WP-70 no. 5.

The scope of medium repairs includes an overhaul of the turbine set 13UCK80 and the steam boiler OP-140 no. 6. The planned medium repairs of auxiliary devices include performance of repair works on the water and sewage installations, fuel installation, deslagging system, heating system, steam and water boiler mills as well as industrial buildings.

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

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

The strategic objective of the Capital Group is to ensure stable and safe production of electric power and heat in compliance with the latest environmental requirements, while aiming to increase the value of entities in the Capital Group.

Business activity factors

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

Main macroeconomic ratios

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

Political factors

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

Legal and regulatory environment

The activity of the Capital Group in the power sector is carried out in the environment governed by specific legal regulations at the domestic and the European Union level. Legal regulations are often the outcome of political decisions, hence the risk of frequent fluctuations in that respect, hardly predictable from the Group's perspective. Moreover, gradually tougher environmental requirements may translate into obligatory additional expense going forward.

In addition, the power sector activity is subject to regulations adopted by the President of the Energy Regulatory Office as the body authorised to pass decisions, approve tariffs and control their application. The regulatory and control powers exercised by the President of the Energy Regulatory Office allow to influence the activity of the Capital Group in the power sector.

By force of the Act of 14 March 2014 on amendments to the Power Act and to selected other acts (Journal of Laws 2014.490), the support for highly efficient power cogeneration was reinstated on 30 April 2014.

The Act on tax on selected financial institutions came into effect on 1 February 2016. By force of said Act, the so-called bank tax of 0.44% of the assets value will be imposed on banks, insurance companies, SKOKs (cooperative savings and credit unions) and credit institutions. The regulatory changes affecting the banking sector may also influence the money supply and therefore, translate into increased cost of funding and in effect, reduction of margins on financial activity.

Investments

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

- construction of flue gas desulphurisation and denitrogenation installation, which enabled the Company's operations after 2016. In effect of the investment, desulphurisation installation for boilers: OP-140 no. 6, OP-140 no. 7 and WZP-70 no. 5, as well as, flue gas denitrogenation installation for boiler OP-140 no. 7 were launched in 2016.
- Extension of mechanical draft cooling tower aimed to increase its capacity to 130 MW, which will translate into expanded production and sale of electric power in the summer season (non-heating season). The investment was completed in march 2016.

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

The Group company Elektrociepłownia Będzin Sp. z o.o. as well as Tauron Ciepło Sp. z o.o. take actions aimed to change the current non-ecological method of heating buildings, by way of connecting them to the heating grid. To achieve the ambitions, on 27 February 2015, the entities signed a marketing agreement amended by annex of 1 June 2015, whereby the growth of capacity resulting from orders related to liquidation of low emission is estimated by the parties at 54 MWt.

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.

Works are pending on implementation of a new reference document (BREF) outlining new, more rigorous environmental requirements. When approved by the European Commission, the documents will be published and translated into all languages of the European Union. Conclusions on best available technology (BAT) will form the foundation for setting the permit conditions. It means that the permissible emission limit determined in the integrated permits must comply with limits stipulated by the document. In justified cases, following a thorough analysis of costs and advantages, geographical conditions and technical parameters of installation, emission limits varying from the limits stipulated by BAT conclusions, may be set.

The process of adopting BAT conclusions is time-consuming and has been underway for many years. There is no information available on the effective date of the aforementioned document. Nonetheless, once BREF document is published and comes into full force and effect, a 4-year period will commence during which plants are supposed to fully comply with the requirements.

Free of charge CO₂ emission allowances

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

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

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

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

Electric power prices

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

- Cost of production fuels,
- Capital expenditures on modernisation of utilities in the context of environmental requirements,
- Investments in new production capacity and replacement of old, outdated utilities,
- Investments in the transmission system,
- European system of emission trade

Electric power demand

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

Long-term development of the power market

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

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

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

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

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

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

Elektrociepłownia "Będzin" S.A. structure includes the Corporate Governance and Investor Relations Department in charge of the Company issues, among others, the Company's obligations stipulated by the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent.

In 2016, no changes occurred in the principles of managing the Group's entities.

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

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

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

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

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

24. Total number and nominal value of all shares

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

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

Wyszczególnienie	Stan na 31 grudnia 2016 r.			
	liczba akcji	liczba głosów	udział w kapitale [%]	udział w głosach [%]
Krzysztof Kwiatkowski*	808 698	808 698	25,68	25,68
Waldemar Organista	688 146	688 146	21,85	21,85
Agio Funds TFI S.A.	334 747	334 747	10,63	10,63
Bank Gospodarstwa Krajowego	311 355	311 355	9,89	9,89
Familiar S.A. SICAV - SIR	271 526	271 526	8,62	8,62
Skarb Państwa	157 466	157 466	5,00	5,00
Podsumowanie	2 571 938	2 571 938	81,67	81,67

* wraz ze spółkami zależnymi, w tym Auto Direct S.A., w której Prezesem Zarządu jest Członek Rady Nadzorczej Spółki Elektrociepłownia "Będzin" S.A. - Pan Grzegorz Kwiatkowski

Shareholding of persons holding managerial and supervisory positions.

As at 31 December 2016, persons managing and supervising Elektrociepłownia "Będzin" S.A. hold the following shares or rights thereto:

Wyszczególnienie	Stan na 31 grudnia 2016 r.			
	liczba akcji	liczba głosów	udział w kapitale [%]	udział w głosach [%]
Krzysztof Kwiatkowski*	808 698	808 698	25,68	25,68
Waldemar Organista	688 146	688 146	21,85	21,85
Podsumowanie	1 496 844	1 496 844	47,53	47,53

* wraz ze spółkami zależnymi, w tym Auto Direct S.A., w której Prezesem Zarządu jest Członek Rady Nadzorczej Spółki Elektrociepłownia "Będzin" S.A. - Pan Grzegorz Kwiatkowski

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

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

26. Information about the employee stock ownership plan control systems

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

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

In 2016, pursuant to agreements of 29 June 2016 on examination of consolidated and non-consolidated financial statements and on examination of semi-annual consolidated and non-consolidated financial statements, the entity authorised to examine financial statements was KPMG Audyt Sp. z o.o. Sp. k. with the registered office in Warsaw at ul. Inflancka 4a (National Court Register registration no. KRS 0000339379). The contractual remuneration totalled PLN 159.0k plus VAT.

In 2015, pursuant to agreements on examination consolidated and non-consolidated financial statements and on examination of semi-annual consolidated and non-consolidated financial

statements, the entity authorised to examine financial statements was KPMG Audyt Sp. z o.o. Sp. k. with the registered office in Warsaw at ul. Inflancka 4a (National Court Register registration no. KRS 0000339379). The contractual remuneration totalled PLN 228.2k plus VAT. The remuneration also covered other IFRS-related advisory services.

28. Additional information

28.1. Natural environment issues

Emission of pollution to the atmosphere

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

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

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

In 2016, the flue gas desulphurisation installation was handed over for use thus enabling the Company to meet the emission standards stipulated by the new IED Directive. However, due to participation of Elektrociepłownia BĘDZIN Sp. z o.o. in the Interim National Plan, desulphurisation installation operates at the level enabling to meet the limits set forth in the Plan, instead of rigorous requirements stipulated by the Directive.

Trade in emission allowances

In January 2016, the annual report on CO₂ emission in 2015 was audited by a chartered auditor from TÜV Rheinland Polska Sp. z o.o. The annual report was assessed positively.

In 2016, Elektrociepłownia BĘDZIN Sp. z o.o. account in the European Union Register was credited with CO₂ emission allowances for 2016.

In December 2016, production data for 2016 were audited for the purpose of trade in emission allowances. The audit led to conclusion that the heat generation reduced, however the reduction will not translate into reduced allocation of emission allowances for 2017.

In 2016, 373 000 EUA allowances were bought, which will allow to settle the 2016 emission.

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 2016 there were no deviations from the provisions of the held permit as regards the use of natural environment for the purpose of business activity.

As of 1 January 2016, Elektrociepłownia BĘDZIN Sp. z o.o. holds an amended integrated permit, The last amendment consisted in exclusion of boiler WP-120 no. 8 from exploitation, participation in the Interim National Plan as well as handing over the flue gas desulphurisation installation for use.

Environment protection audits

In 2016, no environmental audits were carried out in the Capital Group entities.

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

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

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

The Group's subsidiary, Elektrociepłownia BĘDZIN Sp. z o.o., a company with impressive tradition, combines the business activity with significant involvement and contribution to its home region. The Company positively responds to the local community needs. For many years, the Company's operations have aimed to develop science, culture and art as well as to support initiatives propagating physical culture and sports.

In 2016, Elektrociepłownia BĘDZIN Sp. z o.o. acted as the sponsor and patron of various local cultural events.

Also in 2016, within its operations, Elektrociepłownia BĘDZIN Sp. z o.o. acted as the sponsor and patron of many economic and scientific projects, amongst others, "Innovation and enterprise conference", "Polish union of side effects of combustion" and "Power meeting of technology forum".

An important event for the Company was entering into agreement with Wyższa Szkoła Biznesu in Dąbrowa Górnicza [Business College], whereby educational, scientific and research & development projects will be implemented.

In its support for education, Elektrociepłownia BĘDZIN Sp. z o.o. continued cooperation with Zespół Szkół Specjalnych no. 2 in Sosnowiec [Special School Group] and was again involved in the organisation of the "Regional competition of knowledge about health" and in equipping the IT training room for that school.

Moreover, the Company supported organisation of the Powiat foreign language competition organised by III Liceum Ogólnokształcące in Będzin [high school].

The Company contributed to the activity of the international organisation, AIESEC – by supporting an international volunteering project organised by AIESEC local committee operating at the University of Economics in Katowice.

Elektrociepłownia BĘDZIN Sp. z o.o. was actively involved in the international conference Katowice Model United Nations 2017 organised by Liceum Ogólnokształcące im. A. Mickiewicza in Katowice [high school].

In 2016, Elektrociepłownia BĘDZIN Sp. z o.o. co-organised and sponsored numerous sport initiatives by supporting, amongst others, Kagłębie – Sosnowiec football club, MKS Będzin volleyball club, ice hockey Continental Cup 2016 and a marathon – Wyrski race.

During the financial year, the Company again co-financed the holiday trip of Children's Home in Sarnowo, supported with financial donations by the Company for over 20 years now. In its contribution to the regional life, for the 23rd time the Company supported organisation of the International Festival of Christmas Carols in Będzin.

In accordance with the adopted marketing policy, Elektrociepłownia BĘDZIN Sp. z o.o. signed annual agreements with Sosnowiec Museum and Zagłębie Museum in Będzin, the latter one supported by the Company in the role of a general sponsor for many years.

Moreover, the Company again participated in Będzin Days and Sosnowiec Days addressed to the local community.

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

28.3. Quality assurance system audits

Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. holds the management system certificate PN-EN ISO 9001:2009 issued by the certification unit TUV NORD Polska Sp. z o.o. The certificate registration number: AC090 100/0544/477/2013. The quality assurance audit took place on 24 September 2015.

28.4. Events after the balance sheet date

No significant events occurred after the balance sheet date that would have a major impact on the current business-financial standing of the Capital Group.

The Management Board of Elektrociepłownia "Będzin" S.A. (dominant entity) hereby presents the Management Board Report on the activity of Elektrociepłownia "Będzin" S.A. Group in 2016 for the purpose of its publication and submission to authorities of Elektrociepłownia "Będzin" S.A. for approval. The Report was prepared based on the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2014.133, standardised text).

Management Board of Elektrociepłownia "Będzin" S.A.

Krzysztof Kwiatkowski
President of the Management Board
Poznań, 21 March 2017

**Declaration on Corporate Governance
Appendix 1 to**

**Management Board Report
on the activity of
of Elektrociepłownia Będzin S.A. Group
in 2016**

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



DECLARATION OF CORPORATE GOVERNANCE 2016

In 2016, this Declaration on Corporate Governance in Elektrociepłownia "Będzin" S.A. (ECB SA, the Company) was formulated pursuant to art. 91(5)(4) of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2014.133) and corporate governance principles – the "Best Practice for GPW Listed Companies 2016" ("Best Practice"), adopted by force of Regulation of Giełda Papierów Wartościowych w Warszawie S.A. [Warsaw Stock Exchange] no. 26/1413/2015 dated 13 October 2015, on the basis of the European Commission recommendations of 9 April 2014 on the quality of corporate governance reporting (2014/208/EU).

1. Applicable corporate governance principles

In 2016, the Company was applying the corporate governance principles as outlined in the "Best Practice for GPW Listed Companies 2016" ("Best Practice"), adopted by force of Giełda Papierów Wartościowych w Warszawie S.A. Board regulation no. 26/1413/2015 dated 13 October 2015.

The Company's Management Board acts with due diligence to comply with said Best Practice. The text of the adopted and applicable document is published on the website of Giełda Papierów Wartościowych w Warszawie S.A. at the tab dedicated to corporate governance applying to companies listed on the Warsaw Stock Exchange <http://www.gpw.pl> while the Company's corporate governance regulations are published on the Company's website at <http://ecbedzin.pl> and in the Company's annual report.

2. Information about exceptions from the application of corporate governance principles

In 2016, the Company complied with provisions of the "Best Practice for GPW Listed Companies 2016" on information policy and on communication with investors, with the exception of provisions regulating the publication of information referred to in item: *I.Z.1.15. information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website;*

The Company's Supervisory Board Members are appointed in accordance with the Company's Statutes, by the Annual General Meeting of Shareholders, while the Management Board Members by the Company's Supervisory Board. The principles applicable in the Company in this regard do not stipulate any restrictions as to the membership in the management and supervisory bodies of the Company and/ or its subsidiaries and any restrictions as to qualification proceedings, in terms of gender or age.

The Company does not observe the principle set forth in point *I.Z.1.20. an audio or video recording of an Annual General Meeting*. Although, the Company does not exclude the potential application of this rule in the future, should such expectations be explicitly expressed by the Company's shareholders.

The Company observes the Best Practice on prevention of conflict of interest and conclusion of transactions with connected entities in circumstances implying the likelihood of conflict of interest, with the exception of provisions of point *V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or*

may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

In 2016, the Company commenced work to design internal regulations on the methods of preventing, identifying and solving conflicts of interest, as well as, principles of excluding Members of Management Board or Supervisory Board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

As regards remuneration, the Company excludes the provisions of item VI.R.1
The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

Remuneration of the Management Board is stipulated by the managerial contract and its amount is agreed through negotiations between the Company's Management Board (one-person body) appointed for the collective term of office and the Supervisory Board appointing the Management Board. The Supervisory Board's remuneration is composed of one element, paid monthly and its amount depends on the role in the Supervisory Board and is pro rata to the number of days spent performing such Supervisory Board role in a calendar month. In 2016, the Company commenced work to develop standardised remuneration policy to apply throughout ECB S.A. Capital Group. At the same time, when fulfilling the information obligations stipulated by the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent, every year the Company publishes in its annual report information about remuneration of the Management Board and the Supervisory Board Members.

3. Characteristics of internal control and risk management systems applied in the Company in terms of financial reporting.

The Management Board is in charge of the internal control system and its efficiency in terms of generation of financial statements and periodical reports. To this end, the Management Board analyses on an ongoing basis the data provided by financial and accounting units and takes relevant decisions and actions, as applicable.

As regards functional control, the Company's standard is that a chartered auditor examines financial statements produced by the Chief Accountant. At this stage, the potential risk is identified and analysed and decisions are taken, as applicable, to eliminate the potential threats.

A financial statement examined by a chartered auditor is presented to the Company's Management Board, which reviews the statement and submits the final version of the document to the Supervisory Board, together with opinion and report of the chartered auditor. The financial statement's examination by the Supervisory Board is preceded by the statement's review performed by the Audit Committee which revises the document and formulates its recommendation to the Company's Supervisory Board.

The Supervisory Board's examination of the financial statement is recorded in minutes and then, the Supervisory Board passes resolution presenting the Supervisory Board's opinion on the analysed financial statement. Minutes from the examination, together with the Supervisory Board's opinion on the analysed financial statement are presented at the Annual General Meeting to the Company's shareholders and serve as the base for taking decision on approval of financial statements for a financial year.

Companies of ECB S.A. Capital Group apply IT and organisational solutions controlling and securing access to the financial-accounting system and ensuring relevant protection and archiving of accounting books. Access to IT systems is restricted through access rights granted to authorised personnel only.

The risk management process implemented by the Company consists in analysis of current situation in terms of macroeconomic, market and financial environment. Relevant units present their assessment of said environment, highlight factors which may impact the Company's financial and economic performance presently or in the future and estimate potential losses vis-à-vis the annual financial result.

Each analysed risk is allocated to one of the adopted categories: market, operational, financial, environmental or other. Each presented threat is subject to individual analysis leading to decision determining the actual threat level – only risks potentially causing losses in excess of the level considered as critical are taken into consideration. For each of said risks, various management actions are designed and implemented in order to eliminate or mitigate the potential loss. The outcomes of procedures applicable in the above area are subject to ongoing monitoring by the Company's Management Board and Supervisory Board.

4. The Company's majority shareholders

As at 31 December 2016, in accordance with information acquired by Elektrociepłownia "Będzin" S.A., shareholders holding blocks of shares in excess of 5% of the share capital and the same percentage of votes at the Annual General Meeting of shareholders included:

Wyszczególnienie	Stan na 31 grudnia 2016 r.			
	liczba akcji	liczba głosów	udział w kapitale [%]	udział w głosach [%]
Krzysztof Kwiatkowski*	808 698	808 698	25,68	25,68
Waldemar Organista	688 146	688 146	21,85	21,85
Agio Funds TFI S.A.	334 747	334 747	10,63	10,63
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Familiar S.A. SICAV - SIR	271 526	271 526	8,62	8,62
Skarb Państwa	157 466	157 466	5,00	5,00
Podsumowanie	2 571 938	2 571 938	81,67	81,67

* wraz ze spółkami zależnymi, w tym Auto Direct S.A., w której Prezesem Zarządu jest Członek Rady Nadzorczej Spółki Elektrociepłownia "Będzin" S.A. - Pan Grzegorz Kwiatkowski

Shareholding of persons holding managerial and supervisory positions.

As at 31 December 2016, persons managing and supervising Elektrociepłownia "Będzin" S.A. hold the following shares or rights thereto:

Wyszczególnienie	Stan na 31 grudnia 2016 r.			
	liczba akcji	liczba głosów	udział w kapitale [%]	udział w głosach [%]
Krzysztof Kwiatkowski*	808 698	808 698	25,68	25,68
Waldemar Organista	688 146	688 146	21,85	21,85
Podsumowanie	1 496 844	1 496 844	47,53	47,53

* wraz ze spółkami zależnymi, w tym Auto Direct S.A., w której Prezesem Zarządu jest Członek Rady Nadzorczej Spółki Elektrociepłownia "Będzin" S.A. - Pan Grzegorz Kwiatkowski

5. Holders of securities exercising special control powers

The Company's shares are ordinary, bearer shares listed on the regulated market at the Warsaw Stock Exchange. The Company's shares are not privileged.

6. Restrictions in exercising voting rights attached to shares

No restrictions in exercising voting rights attached to the Company's shares apply.

7. Restrictions in assignment of rights to the Company's securities

The Company has no knowledge whatsoever on any restrictions in the assignment of rights to the Company's securities.

8. Principles of appointing and dismissing management and supervisory executives and their powers

8.1 Management Board

Principles of appointing and dismissing Members of the Management Board

The Management Board is composed of 1 to 5 Members. The number of the Management Board Members is determined by the Company's Supervisory Board. According to the principles outlined in the Company's Statute, all Members of the Management Board are appointed by force of the Supervisory Board's Regulation for the collective term of office of 3 years. The Management Board Members may be dismissed or suspended for important reasons by the Supervisory Board in the secret ballot.

Competences of the Management Board

The Management Board manages the Company's issues and represents the Company in all court and out of court cases not restricted by applicable law or the Company's Statute as those within the powers of the Annual General Meeting of Shareholders or the Supervisory Board. Detailed principles of the Management Board operations are presented in the Management Board Terms of Reference adopted by the Management Board and approved by the Supervisory Board.

In accordance with the Company's Statute, all matters beyond the competence of the ordinary management require resolutions of the Management Board, in particular issues listed in the table below:

Table no 2. Competences of the Management Board

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

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

8.2 Supervisory Board

Principles of appointing and dismissing Members of the Supervisory Board

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

Competences of the Supervisory Board

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

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

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

Table no 3. Competences of the Supervisory Board

Matters requiring the Supervisory Board resolution
<ol style="list-style-type: none"> 1. Accepting the rules and regulations of the Management Board of the Company and passing opinions concerning the organizational rules and regulations which describe the organization of business activity of the Company, 2. Accepting the business plan, 3. Adopting the rules of remuneration of the Management Board and the remuneration of Members of the Company's Management Board, 4. Appointing and dismissing Members of Management Board and the whole Management Board in secret ballot, 5. Suspending due to significant reasons one or more Members of the Management Board in secret ballot, 6. Appointing a member or members of the Supervisory Board to perform temporarily the duties of the member of the Management Board of the Company in the event of suspension or dismissal of members of the Management Board or the whole Management Board or when the Management Board is unable to perform its duties due to other reasons, 7. Granting permission for opening branches abroad upon motion of the Management Board, 8. Upon motion of the Management Board, granting members of the Management Board permission to hold posts in the management of other companies which shares or stocks the Company possesses and to receive remuneration for those activities, 9. Selecting a chartered auditor to perform the audit of the financial statements, 10. Assessing the financial statements regarding its compliance with the books and documents and the actual state of affairs, 11. Assessing the report on the Company's activity and the motions of the Management Board concerning the distribution of profits and covering the losses, 12. Submitting a written report on results of activities referred to in item 10 and 11 to the Annual General Meeting, 13. Consent to establishment of a different entity by the Company, to taking over or purchasing shares or stocks of a different company in order to secure the financial credibility of the Company and in the case of bankruptcy, insolvency or settlement proceedings, 14. Determining the way to execute the right to vote at the Annual General Meetings of Shareholders of companies in which the Company holds 50% of shares or stocks, especially in the following matters: <ol style="list-style-type: none"> a) Changes in the Statute and Articles of Association, b) Increasing or decreasing the share capital, c) Merger with a different company or transformation, d) Selling the Company shares, e) Selling or renting the enterprise, establishing perpetual usufruct right thereto or

disposing of the property.

15. Consent to paying to shareholders an advance payment on account of the anticipated dividend,
16. Consent to issuing securities and bonds other than those set forth in § 23(1)(9), with the exception of checks and bills of exchange,
17. Consent to selling the purchased or acquired shares or stocks in other companies, including the regulations and form of the sale.

The Supervisory Board upon motion of the Management Board makes decisions by resolutions regarding purchase and sale of real estates, perpetual usufruct rights there or holding shares in real estates by the Company, with the exception of real estates, perpetual usufruct rights thereto or shares in real estates purchased and sold by the Company in order to resell it or lease it out or rent it out when performing the Company's activity.

9. Principles of amending the Company's Statute

The Company's Statute may be amended only by force of Resolution adopted by the Annual General Meeting.

10. Governing rules and main powers of the Annual General Meeting, rights of shareholders and their exercising.

Governing rules and powers of the Company's Annual General Meeting are presented in the Company's Statute and in *Regulations of the General Meeting of Shareholders of "Będzin" S.A. Power and Heat Plant*, available at the Company's website at <http://www.ecbedzin.pl>

Code of conduct of the Annual General Meeting

The Annual General Meeting takes place in the Company's registered office or in any other place indicated by the Company's Management Board, provided that it is located on the territory of the Republic of Poland. The Annual General Meeting is prepared and convened in compliance with principles set forth in the Code of Commercial Companies, the Company's Statute and the Regulations of the General Meeting of Shareholders. The Annual General Meeting is valid regardless the number of shareholders present at the Meeting. The Annual General Meeting can be attended by persons complying with requirements set forth in art. 406¹ to 406³ of the Code of Commercial Companies or their proxies, Members of the Management Board and Supervisory Board of the Company and all other persons authorised by the AGM.

Rights and obligations of shareholders are regulated by provisions of the Code of Commercial Companies.

Competence of the Annual General Meeting

In accordance with the Company's Statute, the matters listed in the table below require resolutions by the Annual General Meeting.

Table no. 4. Competence of the Annual General Meeting

Matters requiring the Annual General Meeting resolution	
1.	Review and approval of financial statements for the ended fiscal year, as well as, the report of the Management Board regarding the activity of the Company.
2.	Giving the vote of approval to members of the Company's authorities regarding performance of their duties,
3.	Distribution of profits and coverage of losses,
4.	Changing the aim of the business activity of the Company,
5.	Changing the Statute of the Company,
6.	Increasing or decreasing the share capital,
7.	Terms and conditions of redemption of shares,
8.	Mergers and transformations of the Company,
9.	Termination and liquidation of the Company,

10. Issuing convertible bonds or bonds with pre-emptive rights and issuing subscription warrants referred to in art. 453 §2 the Code of Commercial Companies,
11. Selling and renting the company, placing the right to use the company,
12. Raising and cancelling the Company's capital.
13. Any provisions concerning claims for adjustment of damages which occurred upon the establishment of the Company or performing management or supervision duties.

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

11.1 Management Board

The present, ninth term of office of the Management Board has run since 2016. In accordance with the Company's Statute, the term of office runs three years. As at 31 December 2016, the Management Board was composed of Krzysztof Kwiatkowski, President of the Management Board. The composition of the Management Board did not change in 2016.

Management Board code of conduct

The code of conduct of Elektrociepłownia "Będzin" S.A. Management Board is presented in the Company's Statute and in the Management Board Rules and Regulations approved by the Supervisory Board. In accordance with the Company's Statute, the Management Board can be composed of 1 to 5 members. The number of the Management Board members is determined by the Company's Supervisory Board. The collective terms of office of the Management Board is three years. The Company's Supervisory Board appoints and recalls the Management Board's President and other Members of the Management Board. Detailed principles of the Management Board's operations are determined by the Management Board Rules and Regulations adopted by the Management Board and approved by the Company's Supervisory Board resolution.

11.2 Supervisory Board

The present, eight term of office of the Supervisory Board has run from 21 June 2012. In accordance with the Company's Statute, the term of office runs five years. As at 31 December 2016, the Supervisory Board was composed of the following members:

- | | |
|-------------------------|--|
| 1. Janusz Niedźwiecki | - Chairman of the Supervisory Board |
| 2. Waldemar Organista | - Deputy Chairman of the Supervisory Board |
| 3. Wiesław Głanowski | - Chairman of the Supervisory Board |
| 4. Józef Piętoń | - Chairman of the Supervisory Board |
| 5. Maciej Węgorkiewicz | - Chairman of the Supervisory Board |
| 6. Grzegorz Kwiatkowski | - Chairman of the Supervisory Board |

Supervisory Board code of conduct

The code of conduct of Elektrociepłownia "Będzin" S.A. Supervisory Board is presented in the Company's Statute and in the Management Board Rules and Regulations approved by the Supervisory Board. In accordance with the Company's Statute, the Supervisory Board can be composed of 5 to 6 members. The number of the Supervisory Board members is determined by the Company's Annual General Meeting. The Company's Supervisory Board appoints and recalls the Management Board's President and other Members of the Management Board. Detailed principles of the Supervisory Board's operations are determined by the Supervisory Board Rules and Regulations.

11.3 Audit Committee

In 2016, the Audit Committee's composition was as follows:

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

In 2016, there were three meetings of the Audit Committee: on 13 April, on 11 May and on 12 September.

The main duties of the Audit Committee included:

- 1) Monitoring of the Company's financial reporting;
- 2) Monitoring of internal control systems, internal audit and risk management in the Company;
- 3) Monitoring of financial revision in the Company;
- 4) Monitoring of independency of the chartered auditor and the entity authorised to examine the Company's financial statements.

The Audit Committee is the advisory body of the Company's Supervisory Board and provides it with recommendations. In particular, the Audit Committee recommends to the Company's Supervisory Board an entity authorised to audit financial statements and perform the financial revision in the Company. The Company's Supervisory Board may adopt a resolution on extending the scope of the Audit Committee's activity by assigning other areas of activity to the Committee.

Krzysztof Kwiatkowski - President of the Management Board

Poznań, 21 March 2017