



Elektrociepłownia "Będzin" S.A.

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



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of 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 Company, as well as evaluating the overall presentation of the 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 financial statements of Elektrociepłownia "Będzin" S.A.:

- give a true and fair view of the financial position of the Company as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with the accounting principles applicable to the territory of the Republic of Poland as set out in the Accounting Act and related bylaws;
- comply, in all material respects, with applicable regulations and the provisions of the Company's articles of association that apply to the Company's financial statements; and
- have been prepared from accounting records that, in all material respects, have been properly maintained.



Specific Comments on Other Legal and Regulatory Requirements

Report on the Company's Activities

Management of the Company is responsible for the report on the Company's activities.

Our opinion on the financial statements does not cover the report on the Company'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 Company'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 financial statements. Furthermore, based on our knowledge about the Company and its environment obtained in the audit, we have not identified material misstatements in the report on the Company's activities.

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

signed on the Polish original

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

21 March 2017



Elektrociepłownia "Będzin" S.A.

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

**Financial Year ended
31 December 2016**



Elektrociepłownia "Będzin" S.A.

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

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation

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Elektrociepłownia "Będzin" S.A.

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

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1. General

1.1. General information about the Company

1.1.1. Company name

Elektrociepłownia "Będzin" S.A.

1.1.2. Registered office

Bolesława Krzywoustego Street 7
61-144 Poznań

1.1.3. Registration 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 0000064511
Share capital as at the balance sheet date:	PLN 15.746 thousand

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

As at 31 December 2016 the Management Board of the Company was comprised of the Chairman of the 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 Audyty Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office:	ul. 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 Audyty 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 financial statements

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



Elektrociepłownia "Będzin" S.A.

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The financial statements were approved at the Shareholders' Meeting on 11 May 2016 where it was resolved to allocate the net profit for the prior financial year of PLN 148.000 for reserve capital

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

1.4. Audit scope and responsibilities

The financial statements were audited in accordance with the contract dated 29 June 2016, concluded on the basis of the resolution of the General Meeting 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 financial statements at the Company during the period from 12 to 14 December 2016 and from 27 February to 3 March 2017.

Management of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of financial statements that give a true and fair view in accordance with the Accounting Act and related bylaws, and other applicable regulations. Management of the Company is also responsible for the report on the Company's activities.

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

Management of the Company submitted a statement, dated as at the same date as this report, as to the preparation of the 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 financial statements.

All required statements, explanations and information were provided to us by Management of the Company 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 Company 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-Government, Audit Firms 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.

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2. Financial analysis of the Company

2.1. Summary analysis of the financial statements

2.1.1. Balance sheet

ASSETS	31.12.2016	% of total	31.12.2015	% of total
	PLN '000		PLN '000	
Non-current assets				
Intangible assets	12	0,0	22	0,0
Tangible fixed assets	557	0,4	1 210	0,9
Long term receivables	22 365	14,2	-	-
Long term investments	131 247	83,1	130 588	97,0
Long term prepayments and deferred expenses	1 170	0,7	1 158	0,9
	<u>155 351</u>	<u>98,4</u>	<u>132 978</u>	<u>98,8</u>
Current assets				
Short term receivables	1 613	1,0	2	0,0
Short term investments	950	0,6	1 604	1,2
Short term prepayments and deferred expenses	8	0,0	1	0,0
	<u>2 571</u>	<u>1,6</u>	<u>1 608</u>	<u>1,2</u>
TOTAL ASSETS	<u>157 922</u>	<u>100,0</u>	<u>134 586</u>	<u>100,0</u>
EQUITY AND LIABILITIES				
	31.12.2016	% of total	31.12.2015	% of total
	PLN '000		PLN '000	
Equity				
Share capital	15 746	10,0	15 746	11,7
Supplementary capital	60 493	38,3	60 346	44,8
Other capital reserves	15 261	9,6	15 261	11,4
Net profit	322	0,2	148	0,1
	<u>91 822</u>	<u>58,1</u>	<u>91 501</u>	<u>68,0</u>
Liabilities and provisions for liabilities				
Provisions for liabilities	85	0,1	48	0,0
Long term liabilities	62 457	39,6	42 915	31,9
Short term liabilities	3 544	2,2	108	0,1
Accruals and deferred income	14	0,0	14	0,0
	<u>66 100</u>	<u>41,9</u>	<u>43 085</u>	<u>32,0</u>
TOTAL EQUITY AND LIABILITIES	<u>157 922</u>	<u>100,0</u>	<u>134 586</u>	<u>100,0</u>



Elektrociepłownia "Będzin" S.A.

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2.1.2. Profit and loss account

	1.01.2016 - 31.12.2016 PLN '000	% of total sales	1.01.2015 - 31.12.2015 PLN '000	% of total sales
Net revenue from sales of finished products, merchandise and raw materials				
Net revenue from sales of finished products	2 290	88,8	287	100,0
Net revenue from sales of merchandise and raw materials	290	11,2	-	-
	<u>2 580</u>	<u>100,0</u>	<u>287</u>	<u>100,0</u>
Cost of finished products, merchandise and raw materials sold				
Cost of merchandise and raw materials sold	(50)	1,9	-	-
Gross profit on sales	2 530	98,1	287	100,0
General and administrative expenses	(1 138)	44,1	(603)	209,9
Profit on sales	1 392	54,0	(316)	110,0
Other operating income				
Gain on disposal of non-financial fixed assets	-	-	10	3,7
Other	125	4,8	8	2,9
	<u>125</u>	<u>4,8</u>	<u>19</u>	<u>6,6</u>
Other operating costs				
Other	(29)	1,1	(19)	6,7
Operating profit	1 488	57,7	(317)	110,3
Finance income				
Dividends received and share of profits	1 500	58,2	1 500	522,4
Interest	3	0,1	43	14,8
Remeasurement of investments	50	1,9	60	20,9
	<u>1 553</u>	<u>60,2</u>	<u>1 603</u>	<u>558,1</u>
Finance costs				
Interest	(2 669)	103,4	(927)	322,6
Other	-	-	(489)	170,2
	<u>(2 669)</u>	<u>103,4</u>	<u>(1 416)</u>	<u>493,1</u>
Profit before taxation	372	14,4	(130)	45,1
Corporate income tax	(50)	1,9	277	96,5
Net profit	<u>322</u>	<u>12,5</u>	<u>148</u>	<u>51,4</u>



Elektrociepłownia "Będzin" S.A.

The report on the audit of the financial statements
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2.2. Selected financial ratios

	2016	2015	2014
1. Return on sales			
$\frac{\text{net profit} \times 100\%}{\text{net revenue}}$	12,5%	7,8%	8,2%
2. Return on equity			
$\frac{\text{net profit} \times 100\%}{\text{equity} - \text{net profit}}$	0,4%	0,2%	7,4%
3. Debt ratio			
$\frac{\text{liabilities and provisions for liabilities} \times 100\%}{\text{total equity and liabilities}}$	41,9%	32,0%	3,3%
4. Current ratio			
$\frac{\text{current assets}}{\text{current liabilities}}$	0,7	10,6	4,2

- Current assets exclude trade receivables due in more than 12 months.
- Current liabilities are comprised of short-term provisions for liabilities, short-term liabilities (excluding trade liabilities due in more than 12 months) and other short-term accruals.
- Net revenue includes revenue from sales of finished products, merchandise and raw materials.



Elektrociepłownia "Będzin" S.A.

The report on the audit of the financial statements
for the financial year ended 31 December 2016
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3. Detailed report

3.1. Accounting system

The Company maintains current documentation describing the applied accounting principles adopted by the Management Board to the extent required by Art. 10 of the Accounting Act.

On the basis of the work performed, we have not identified any material irregularities in the accounting system which have not been corrected and that could have a material effect on the financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

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

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

21 March 2017

**Separate financial Statement
of Elektrociepłownia Będzin S.A.
2016**

Elektrociepłownia Będzin S.A.



Poznań, 21 March, 2017.

Statement of the Management Board on the reliability of the preparation of the financial statements 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.

The report of the Management Board of Elektrociepłownia „Będzin” S.A. 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 on the entity authorized to audit the
financial statements**

According to our deepest conviction and knowledge we declare that the entity authorized to audit financial statements - KPMG Audyt Sp. z o.o. Sp. - the auditor of 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

Poznań, 21 March 2017

Dear Sirs and Madams,
Dear Shareholders,

I am pleased to present you the third report summarizing the economic activity of Elektrociepłownia "Będzin" SA. This time for the financial year 2016. The Company may deem the past year very successful in terms of development of the Capital Group, in which the Company acts as the dominant entity, conducting capital activity and corporate governance over the 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 business model of Elektrociepłownia "Będzin" S.A. strives towards a holding company that groups energy companies and finance and leasing services for this sector. In June 2016, owing to the efforts of the Management Board of Elektrociepłownia "Będzin" S.A. two Polish funds became significant shareholders of the Company.

In September 2016, after eight years, at the request of the Cooperative Banks from the SGB Group, ETF-L ENERGO - UTECH S.A. 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.

At this point, I can confirm that we have redefined Elektrociepłownia Będzin Sp. z o.o. as a producer of electricity and heat, operating in accordance with the environmental protection conditions, providing jobs for all employees of the Company and co-operating companies.

It is worth highlighting that both the actions taken and the strategy adopted resulted in the increased value of Elektrociepłownia "Będzin" SA shares listed on the Warsaw Stock Exchange to PLN 23.00 as at 31 December 2016, 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 the Group Companies, the support of the Supervisory Board of Elektrociepłownia Będzin, as well as the hard work of the management staff and the daily efforts of the employees, with the support of the Kancelaria Adwokata i Radcy Prawnego Maria Brzozewska, Radosław Kędziora Sp.p Law Firm and Legal Counsel. Hereby, I would like to cordially thank you all for this invaluable contribution to the development of the Capital Group.

Sincerely yours,

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

3. INTRODUCTION TO FINANCIAL STATEMENTS OF ELEKTROCIEPŁOWNIA A “BĘDZIN” S.A.

1. General information

Elektrociepłownia “Będzin” S.A. (“Company”).
ul. Bolesława Krzywoustego 7, 61-144 Poznań

The company operates under no. 0000064511 of the National Court Register. The register court of competent subject matter jurisdiction for the company is Regional Court Katowice-Wschód in Katowice, 8th Business Unit of the National Court Register.

The core business of Elektrociepłownia “Będzin” S.A. encompasses:

- activity of financial holdings
- lease and rental of other machines and equipment and tangible assets.

Elektrociepłownia “Będzin” S.A. is the dominant entity of Elektrociepłownia “Będzin” S.A. Capital Group. The Group's subsidiaries include:
- Elektrociepłownia BĘDZIN Sp. z o.o. with the registered office in Będzin (42-500) at ul. Małobądzka 141, wholly owned by the company.

- Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. with the registered office in Poznań (61-144), wholly owned by the company.

The associated entity is Promobil Fleet spółka z o.o. with the registered office in Poznań (61-707) at ul. Karola Libelta 29/8, where the company's shareholding is 40%.

The production activity in the form of cogeneration through combined heat and power is carried out by the subsidiary, namely Elektrociepłownia BĘDZIN Sp. z o.o., while the financial services activity, mainly leasing, is carried out by another subsidiary, namely - Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. Promobil Fleet sp. z o.o. specialises in the lease of cars.

Management Board as at 31 December 2016:

Krzysztof Kwiatkowski - President of the Management Board

Supervisory Board as at 31 December 2016:

Janusz Niedźwiecki - Chairman of the Supervisory Board Chairman,

Waldemar Organista - Vice-Chairman of the Supervisory Board,

Wiesław Głanowski - Member of the Supervisory Board,

Józef Piętoń - Member of the Supervisory Board,

Maciej Węgorkiewicz - Member of the Supervisory Board,

Grzegorz Kwiatkowski - Member of the Supervisory Board,

Audit Committee operating within the Supervisory Board as at 31 December 2016:

Janusz Niedźwiedzki - Chairman of the Audit Committee,

Waldemar Organista - Member of the Audit Committee,

Józef Piętoń - Member of the Audit Committee.

2. Presentation of financial statements

The company presents financial statements for the period commencing on 1 January 2016 and ending on 31 December 2016, as well as, comparable financial data for the period from 1 January 2015 to 31 December 2015.

The financial statements were produced at the going concern assumption whereby the company will continue its business operations throughout the foreseeable future encompassing period not shorter than one year as of the balance sheet date and the scope of said activity will not be significantly reduced. There are no circumstances whatsoever posing a threat to the continuity.

3. The accounting methods and principles applied

Legal grounds:

- The accounting Act of 29 September 1994 (Journal of Laws 2016.1047, as amended),
- Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and terms for recognizing information required by non-member state laws as equivalent (Journal of Laws 2014.133),
- Regulation of the Minister of Finance of 18 October 2005 on the scope of information disclosed in the financial statements and consolidated financial statements required for the issue prospectus for issuers having their registered office in the Republic of Poland and to which Polish accounting rules apply (Journal of Laws 2014.300).

Elektrociepłownia „Będzin” S.A.

3.1. Balance sheet

3.1.1 Intangible assets

Intangible assets are measured as at the balance sheet date at purchase price reduced by amortisation (amortisation charges) reflecting their wear and tear. When a particular intangible asset ceases to fully or partially bring benefits, however not later than as at the balance sheet date, the company makes an amortisation charge taken to other operating costs. Intangible assets in the form of computer software and licences amortize over the period of two years.

3.1.2 Tangible assets

According to the Accounting Act, the company makes straight line depreciation charges over the foreseeable utilisation period of fixed assets. Fixed assets are amortized as follows:

<i>Fixed assets</i>	<i>Fixed Assets Classification number</i>	<i>Annual depreciation rates in%</i>
- Own plots of land (including perpetual usufruct rights thereto)	0	Non-depreciated
- Tool, equipment, movable assets, fittings and fit-outs	8	10 - 25

Fixed assets with original value up to PLN 3.5k are subject to one-off depreciation effected in a month following the month in which they were handed over for use and they are recognized in the fixed assets records. For the perpetual usufruct rights to land acquired free of charge, the company decided not to depreciate said perpetual usufruct rights to land on the assumption that due to the long usufruct term of 99 years, the value of the land will not be gradually decreasing.

The perpetual usufruct rights to land acquired free of charge are presented in the long-term accruals on the liabilities side of the balance sheet, in accordance with the recommendation presented in communication no. 1/DR/2003 of the Ministry of Finance dated 20 December 2002.

Fixed assets which became economically obsolescent are subject to impairment charge taken to other operating costs. As regards fixed assets which were subject to revaluation since 1 January 1995, potential impairment charges reduce the revaluation difference reflected in the revaluation reserve. The surplus of impairment charge over the revaluation difference will be charged to other operating costs.

3.1.3 Long-term investments

Balance sheet shares are measured at the purchase price adjusted by impairment charges on the value of such shares.

3.1.4 Long-term prepayments and accruals

Deferred income tax assets are measured at the future tax amount deduction due to negative interim differences which, in the future, will translate into reduced income tax base and deductible tax loss calculated using prudential approach. The deferred income tax assets are measured with the consideration of income tax rates applicable in the year when the tax duty arose.

3.1.5 Short-term receivables

Receivables are measured at due payment amounts, in compliance with the prudent valuation principle. The company adjusts the value of receivables by impairment charges on receivables from debtors in liquidation or bankruptcy, those who question the debt or are in arrears as at the balance sheet date if assessment of their business and financial standing indicates that debt repayment is rather unlikely in the nearest future. Impairment charges on receivables are taken either to other operating costs or to financial costs, depending on the type of impaired receivables.

3.1.6 Short-term investments

Cash in hand and at bank is measured at nominal value. Term deposits in bank with maturity shorter than 3 months are measured at nominal value.

3.1.7 Short-term prepayments and accruals

The company makes costs prepayments if they apply to future reporting periods and costs accruals, in the amount reflecting the likely liabilities amount in the current reporting period. The costs prepayments and costs accruals taken to costs of a given reporting period of the company are effected to match the flow of time and the value of benefits settled over time. The time and manner of settlement is justified with the type of settled costs, in compliance with the prudent valuation principle.

3.1.8 Equity

Share capital is recognised in the amount compliant with the company's statute and with the entry to the National Court Register, at nominal value.

Share capital is represented by 3,149,200 A-series shares of the nominal value of PLN 15,746k.

Supplementary capital established through allocation of net profit in the amount representing 1/3 of the share capital may be earmarked only to loss covering. Supplementary capital may be decreased or increased only by force of resolutions of the General Meeting of Shareholders, except for increases by the difference resulting from revaluation of disposed fixed assets subject to previous revaluation.

Elektrociepłownia „Będzin” S.A.

Moreover, the Company may create revaluation reserve through revaluation of long-term investments. The revaluation reserve is increased by amounts arising from valuation of long-term investments and reduced by adjustments arising from previous revaluations and by non-settled valuation differences in case of disposal of assets which were previously subject to revaluation.

The other reserve capitals are elements of the equity raised in accordance with the Company's Statutes.

3.1.9 Provisions

Provisions for liabilities are measured at least as at the balance sheet date, at justified, duly estimated value. The company raises provisions for certain or very likely future liabilities the amount of which can be reliably estimated, in particular for costs of services related to a particular reporting period, such services delivered during the next reporting periods and for long-term and short-term employee benefits. The financial implications of raised provisions are taken to operating costs, other operating costs or financial costs, as appropriate, depending on the type of operation triggering the future liabilities.

Valuation of provisions for service anniversary awards, retirement severance payments, disability severance payments, death benefits and unused holiday allowances, is based on the actuarial valuation made by a professional entered to the list of actuaries, member of the Polish Association of Actuaries. The measurements were made using actuarial techniques, in accordance with the International Financial Reporting Standards, IAS 19 in particular.

Deferred income tax provisions are raised in the amount of the future due amount arising from positive temporary differences. Deferred income tax provisions are raised with the consideration of tax rates applicable in the year when tax duty arises.

3.1.10 Long-term liabilities

As at the balance sheet date, there are long-term liabilities to other entities, arising from the issuance of debt securities, as well as, financial liabilities arising from the purchase of shares.

Liabilities arising from the issuance of debt securities are measured at the adjusted purchase price. Financial liabilities are measured upon their entry to accounting books, at the due amount.

3.1.12 Short-term liabilities

Short-term liabilities are measured at least as at the balance sheet date, at the due amount.

The Employee Benefit Fund presented in the short-term liabilities was created in accordance with the Corporate Collective Labour Agreement.

3.1.13 Other prepayments and accruals

The deferred income is recognized in compliance with the prudence principle. In particular, the deferred income is represented by the equivalent of funds (mostly pecuniary assets) received or due from customers for benefits to be delivered during the future reporting periods.

This item also encompasses the perpetual usufruct rights to land acquired free of charge, which are recognized in accordance with the recommendation presented in communication no. 1/DR/2003 of the Ministry of Finance dated 20 December 2002.

3.2 Financial result

The company produces Profit and Loss Account by function.

The financial result is the outcome of revenues, profits and costs indispensable to generate said revenues and profits, as well as incurred losses presented in accordance with the matching principle, all these recorded in the accounting year.

Operating revenues include recurring revenues generated directly from the core business activity. In 2016, the Company presented the sale revenues in net sale prices, i.e. market sale prices reduced by discounts, reductions and other deductions and by the applicable VAT.

The profit (loss) on sale is represented by a difference between net revenues from the sale of products, goods and materials, with the consideration of subsidies, discounts, deductions and other increases or decreases, net of VAT and other operating revenues, and the value of sold products, goods and materials measured at the manufacturing cost or at purchase price, increased by the total cost of management, sale of products, goods and materials and other operating costs incurred from the opening of the accounting year.

The profit (loss) on operating activities is represented by a difference between financial revenues, in particular those arising from dividends (profit sharing), interest, gains on disposal and revaluation of investments other than those referred to in art. 28(1)(1a) of the Accounting Act (AA), surplus of positive foreign exchange differences over the negative ones, and financial expenses, in particular those arising from interest, losses on disposal of investments other than those referred to in art. 28(1)(1a) of the Accounting Act, surplus of negative foreign exchange differences over the positive ones, with the exception of interest, fees and positive and negative foreign exchange differences referred to in art. 28(4) and (8)(2) of the Accounting Act.

The net profit (loss) is represented by gross profit (loss) reduced by the following tax charges:

- Current tax – income tax payable for a particular period,
- Deferred tax – difference between the provision for the deferred income tax and the deferred tax assets as at the opening and as at the closing of the reporting period, however the provision for the deferred income tax and the deferred tax assets pertaining to operations settled with equity, are also taken to equity.

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3.3 Measurement of transactions in foreign currencies

Throughout the accounting year, the Company measures business transactions in accordance with the following principles:

- Liabilities arising from the purchase of services – the blended rate announced by the National Bank of Poland on the last business day preceding the invoice issuance date,
- Payment of liabilities abroad – the bank sell rate,
- Advances paid in foreign currency – the bank sell rate applicable as at the advance payment date. When advances are returned – the rate which was applied when paying the advance.

The assets and liabilities as at the balance sheet date are measured at the blended NBP rate.

3.4 Financial instruments

3.4.1 Classification of financial instruments

Financial instruments are recognized and measured in compliance with Regulation of the Minister of Finance of 12 December 2001 on Detailed Rules for the Recognition, Valuation Methods, the Scope of the Disclosure and Presentation of Financial Instruments (Journal of Laws of 2017.123, as amended). The principles of valuation and recognition of financial assets described in the below note do not apply to the following items excluded from the foregoing Regulation: shares and stocks in subsidiaries, rights and obligations arising from lease and insurance agreement, receivables and liabilities arising from supplies and services and financial instruments issued by the Company and representing its equity instruments.

Financial assets are classified in the following four categories:

- Financial assets held specifically for trading,
- Loans and receivables,
- Held-to-maturity investments,
- Available-for-sale financial assets.

Financial liabilities are classified in the following two categories:

- Financial liabilities held specifically for trading,
- Other financial liabilities.

3.4.2 Recognition and measurement of financial instruments

Financial assets are booked as at the effective contract date, at purchase price, i.e. the fair value of incurred expense or other assets contributed in return, while financial liabilities at fair value of the received amount or the value of other assets acquired. When measuring the fair value as at that day, the transaction expense incurred by the Company are also taken into consideration.

Financial instruments buy or sell transactions made on the regulated market are booked as at the dates of said transactions.

3.4.3 Financial assets held specifically for trading

Financial assets held specifically for trading include assets purchased to obtain economic benefits arising from short-term price changes and fluctuations of other market factors or short term of the purchased instrument, as well as, other financial assets regardless of intentions applicable when making the contract, provided they are held within the portfolio of similar financial assets and the said portfolio is very likely to bring the assumed economic benefits within a short period of time.

Derivatives are included in this category as well, unless they are designated by the Company as hedging instruments.

At the time of initial recognition, financial assets held for trading are recognised at fair value, while outcomes of periodical measurement are taken to financial revenues or expenses of the reporting period when the revaluation took place, respectively.

3.4.4 Held-to-maturity investments

Held-to-maturity investments include financial assets not classified as loans and receivables, with maturity dates fixed in the contracts, which also determine the right to obtain, at the agreed dates, certain economic benefits, such as interest in fixed or determinable amount, on the condition the Company intends and is duly authorised to hold said assets until their maturity.

Held-to-maturity financial assets are measured at amortised cost using the effective interest rate method.

3.4.5 Loans and receivables

Irrespective of the maturity (payment) date, loans and receivables include financial assets which arise in effect of handing over funds directly to the other party to the contract. Bonds and other debt securities are included in loans and receivables, said bonds and securities acquired directly in return for funds paid to the other party, provided that the contract explicitly stipulates that the disposing party has not lost the control over the handed over financial instruments (repo transaction).

Loans and receivables do not include loans and receivables received or payments made by the Company to acquire equity instruments under new issuances, also when the acquisition is made under the initial public offering or on the primary market and in the case of rights to shares, also on the secondary market.

Loans and receivables are recognized at the adjusted purchase price, determined using the effective interest rate method.

3.4.6 Available-for-sale financial assets

Financial assets not classified under the aforementioned categories are considered as available-for-sale financial assets.

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Available-for-sale financial assets are measured at fair value while gains or losses arising from periodical measurement are recognized under revaluation reserve. In case of interest-bearing debt securities classified under this category, the interest determined using the effective interest rate method is taken directly to the profit and loss account statement.

Available-for-sale financial assets whose fair value cannot be reliably determined, are measured at purchase price.

3.4.7 Reclassification of financial assets

Financial assets held specifically for trading are measured at fair value as at the date they are reclassified to another category of financial assets. Fair value as at the reclassification date becomes the newly determined purchase price or the adjusted purchase price, respectively. Gains or losses arising from revaluation of financial assets reclassified to another category, to date recognized as financial revenues or financial expenses, remain in the profit and loss account statement.

Held-to-maturity investments reclassified to the category of available-for-sale financial assets, are measured at fair value as at the reclassification date. The effects of revaluation determined as the difference between the adjusted purchase price recognized in the books and the fair value, are taken to the revaluation reserve.

3.4.8 Financial liabilities

Financial liabilities held for trading, including derivatives not designated by the Company as hedging instruments, are presented at fair value, while gains or losses arising from their measurement are recognized directly in the profit and loss account statement.

Financial liabilities held for trading also include an obligation to deliver securities and other financial instruments under short selling contracts made by the Company.

Other financial liabilities are measured at adjusted purchase price, determined using the effective interest rate method.

3.4.9 Hedge accounting

The Company does not apply hedge accounting.

3.4.10 Description of methods and important assumptions applied when determining the fair value of financial assets and financial liabilities measured at fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

4. Important court disputes

On 26 September 2014, the Company was served with lawsuit brought by the Company's shareholder, a natural person, to 14th Business Unit of the District Court in Katowice. The Company was sued for revoking resolution no. 4 of the Extraordinary General Meeting of Elektrociepłownia "Będzin" S.A. dated 31 July 2014 on approval of disposal of the Company's enterprise or its organised part.

On 14 January 2015, the District Court in Katowice dismissed the shareholder's action.

On 27 July 2016, the Court of Appeal in Katowice ordained discontinuation of the proceedings against the Issuer for revoking resolution no. 4 of the Extraordinary General Meeting of Elektrociepłownia "Będzin" S.A. dated 31 July 2014. The court proceedings were discontinued due to withdrawal of the action brought by the shareholder. The verdict is legally effective.

No court proceedings initiated by Elektrociepłownia "Będzin" S.A. have been pending.

5. Additional information

a) *information about currency exchange rates applied for converting the financial statement data.*

Balance sheet data in EUR were converted at the blended NBP rate of PLN 4.4240 applicable as at 31 December 2016.

In 2015, balance sheet data in EUR were converted at the blended NBP rate of PLN 4.2615 applicable as at 31 December 2015.

b) *information about dividend*

Elektrociepłownia "Będzin" S.A. did not pay out dividend in 2016.

c) *other explanations*

The Company produces consolidated financial statements in accordance with the International Financial Reporting Standards as the dominant entity of Elektrociepłownia "Będzin" S.A. Capital Group with subsidiaries.

Indication and explanation of differences in the value of disclosed information between the Polish Accounting Standards and the IAS/IFRS. The Company applies the accounting principles in accordance with the Accounting Act of 29 September 1994 (Journal of Laws of 2016.1047, as amended). The Company does not produce non-consolidated financial statements in accordance with the IFRS.

The Company made a preliminary identification of differences between the Polish Accounting Standards applied by the Company and the IFRS guidelines by acting with due diligence based on best knowledge about the applicable standards and their interpretation as well as about accounting principles that would apply if the financial statements were produced in accordance with the IFRS.

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The table below presents adjustments that would apply if the accounting principles followed when producing the financial statements were IAS/IFRS. The adjustments arise mainly from revaluation of tangible fixed assets at fair value as at the date of shifting to IFRS and from presentation amendments.

	31 December 2015			31 December 2016		
	Previously applied accounting principles as per AA	Implications of accounting principles changed to EU IFRS	EU IFRS	Previously applied accounting principles as per AA	Implications of accounting principles changed to EU IFRS	EU IFRS
ASSETS	134 586	17 643	152 229	157 922	17 593	175 515
Fixed assets	132 978	17 655	150 633	155 351	17 593	172 944
Intangible assets	22	-	22	12		12
Tangible fixed assets	1 210	299	1 509	557	299	856
Long-term receivables	-	-	-	22 365		22 365
Long-term investments	130 588	17 356	147 944	131 247	17 356	148 603
Long-term prepayments	1 158	-	1 158	1 170	62	1 108
Current assets	1 608	- 12	1 596	2 571		2 571
Inventory	-	-	-	-		-
Short-term receivables	3	- 1	2	1 613		1 613
- from related parties	-	-	-			-
- from other entities	3	- 1	2	1 613		1 613
Receivables from income tax	-	2	2			-
Short-term investments	1 604	- 11	1 593	950		950
Short-term prepayments	1	- 1	-	8		8
LIABILITIES	134 586	17 643	152 221	157 922	17 593	175 515
Equity	91 501	17 654	109 155	91 822	17 655	109 477
Share capital	15 746	21 982	37 728	15 746	21 982	37 728
Supplementary capital	60 346	- 28 762	31 584	60 493	- 28 762	31 731
Revaluation reserve	-	-	-			-
Other reserve capital	15 261	-	15 261	15 261	-	15 261
Profit (loss) from previous years	-	24 434	24 582	-	24 435	24 757
Net profit (loss)	148			322		

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Liabilities and provisions liabilities	43 085	-	11	43 074	66 100	-	62	66 038
Provisions for liabilities	48	-	-	48	85	-	62	23
Provision for deferred income tax	-	-	-	-	62	-	62	-
Provision for retirement and similar benefits	10	-	-	10	8	-	-	8
- long-term	5	-	-	5	-	-	-	-
- short-term	5	-	-	5	8	-	-	8
Other provisions	38	-	-	38	15	-	-	15
- long-term	-	-	-	-	-	-	-	-
- short-term	38	-	-	38	15	-	-	15
Long-term liabilities	42 915	-	-	42 915	62 457	-	-	62 457
To related parties	-	-	13 256	13 256	1 000	-	-	1 000
To other entities	42 915	-	13 256	29 659	61 457	-	-	61 457
Short-term liabilities	108	-	11	97	3 544	-	-	3 544
To related parties	-	-	-	-	930	-	-	930
To other entities	97	-	-	97	2 611	-	-	2 611
Special funds	11	-	11	-	3	-	-	3
Accruals	14	-	-	14	14	-	-	14
Negative goodwill	-	-	-	-	-	-	-	-
Other accruals	14	-	-	14	14	-	-	14
long-term	14	-	-	14	14	-	-	14
short-term	-	-	-	-	-	-	-	-

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SELECTED FINANCIAL DATA (current year)	In PLN k/ EURk			
	2016	2015	2016	2015
I. Net revenues from sales of products, goods and materials	2 580	287	590	69
II. Profit (loss) on operating activities	1 488	- 317	340	- 76
III. Gross profit (loss)	372	- 129	85	- 31
IV. Net profit (loss)	322	148	74	35
V. Net cash flows from operating activities	- 17 331	-1 974	- 3 961	- 472
VI. Net cash flows from investment activities	- 416	-4 160	- 95	- 994
VII. Net cash flows from financial activities	17 093	3 526	3 906	843
VIII. Total net cash flows	- 654	-2 608	- 149	- 624
IX. Total assets	157 922	134 586	35 697	31 582
X. Liabilities and provisions for liabilities	66 100	43 085	14 941	10 110
XI. Long-term liabilities	58 957	42 915	13 327	10 070
XII. Short-term liabilities	7 044	108	1 592	25
XIII. Equity	91 822	91 501	20 755	21 472
XIV. Share capital	15 746	15 746	3 559	3 694
XV. Number of shares	3 149 200	3 149 200	3 149 200	3 149 200
XVI. Profit (loss) per ordinary share (in PLN/ EURO)	0,10	0,05	0,02	0,01
XVII. Diluted profit (loss) per ordinary share (in PLN/ EURO)	0,10	0,05	0,02	0,01
XVIII. Book value per ordinary share (in PLN/ EURO)	29,16	29,06	6,59	6,82
XIX. Diluted book value per ordinary share (in PLN/ EURO)	29,16	29,06	6,59	6,82
XX. Declared or paid dividend per share (in PLN/ EURO)	-	-	-	-

Elektrociepłownia „Będzin” S.A.

4. Balance sheet

ASSETS		Note	As at 31.12.2015	As at 31.12.2016
A.	FIXED ASSETS		132 978	155 351
I.	Intangible assets	1	22	12
3.	Other intangible assets		22	5
4.	Advances for intangible assets			7
II.	Tangible fixed assets		1 210	557
1.	Tangible fixed assets in use	2	559	557
	a) land (including right to perpetual usufruct)		551	551
	b) other tangible fixed assets		8	6
3.	Advances for tangible fixed assets under construction		651	
III.	Long-term receivables			22 365
1.	From other entities			22 365
IV.	Long-term investments	3	130 588	131 247
1.	Long-term financial assets		130 588	131 247
	a) in related parties		130 588	131 247
	- shares		130 588	131 247
V.	Long-term prepayments	4	1 158	1 170
1.	Deferred tax assets		1 158	1 170
B.	CURRENT ASSETS		1 608	2 571
I.	Short-term receivables	5	3	1 613
1.	<i>Receivables from other entities</i>		3	1 613
	a) receivables from tax, subsidy, customs, social security and other benefits		3	5
	b) other			1 608
III.	Short-term investments	6	1 604	950
1.	<i>Short-term financial assets</i>		1 604	950
	a) cash and other pecuniary assets		1 604	950
	- cash in hand and at bank		404	28
	- other cash		1 200	922
IV.	Short-term prepayments	7	1	8
C.	CALLED UP SHARE CAPITAL			
D.	OWN SHARES			
	TOTAL ASSETS		134 586	157 922

Elektrociepłownia „Będzin” S.A.

LIABILITIES		Note	As at 31.12.2015	As at 31.12.2016
A.	EQUITY		91 501	91 822
I.	Share capital	8	15 746	15 746
II.	Supplementary capital		60 346	60 493
III.	Other reserve capitals		15 261	15 261
IV.	Net profit (loss)		148	322
B.	LIABILITIES AND PROVISIONS FOR LIABILITIES		43 085	66 100
I.	Provisions for liabilities	9	48	85
1.	Provision for deferred income tax			62
2.	Provision for retirement and similar benefits		10	8
	-long-term		5	
	-short-term		5	8
3.	Other provisions		38	15
	- short-term		38	15
II.	Long-term liabilities	10	42 915	62 457
1.	To related parties			1 000
2.	To other entities		42 915	61 457
	a) credits and loans			17 190
	b) arising from issuance of debt securities		29 659	29 768
	c) other		13 256	14 499
III.	Short-term liabilities		108	3 544
1.	To related parties			930
	a) other			930
2.	To other entities		97	2 611
	a) credits and loans			2 450
	b) trade liabilities, maturing:		13	40
	- up to 12 months		13	40
	c) tax, customs, insurance and other liabilities		70	98
	d) payroll liabilities		14	23
3.	Special funds		11	3
IV.	Accruals	12	14	14
1.	Other accruals		14	14
	- long-term		14	14
TOTAL LIABILITIES			134 586	157 922

5. Profit and loss account (by function)

Item		For the period		
		Note	01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
A.	Net revenues from sales of products, goods and materials, including:	13	287	2 580
	- from related parties		274	424
I.	net revenues from sales of products		287	2 290
II.	net revenues from sales of goods and materials			290
B.	Cost of products, goods and materials sold, including:		-	50
I.	Value of goods and materials sold			50
C.	Gross profit (loss) on sales (A-B)		287	2 530
D.	Selling costs			
E.	General and administrative costs		603	1 138
F.	Profit (loss) on sales (C-D-E)		-316	1 392
G.	Other operating revenues		18	125
I.	Gain on disposal of non-financial fixed assets		10	
III.	Other operating revenues		8	125
H.	Other operating expenses		19	29
I.	Other operating expenses		19	29
I.	Profit (loss) on operating activities (F+G-H)		- 317	1 488
J.	Financial revenues	15	1 603	1 553
I.	Dividend and profit sharing, including:		1 500	1 500
a)	from related parties:		1 500	1 500
	- where the company holds shares in capital		1 500	1 500
II.	Interest, including:		43	3
III.	Other		60	50
K.	Financial expenses	16	1 415	2 669
I.	Interest, including:		927	2 669
	for related parties			32
II.	Other		488	
L.	Gross profit (loss) (I+J-K)		- 129	372
M.	Income tax		- 277	50
N.	Other statutory reductions in profit (increases in loss)			
O.	Net profit (loss) (L-M-N)		148	322

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6. Cash flows

No.	Item	For the period	
		01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
A. Cash flows from operating activities			
I.	Net profit (loss)	148	322
II.	Total adjustments	- 2 122	- 17 653
1.	Amortisation and depreciation	15	19
2.	Interest and profit sharing (dividend)	- 466	1 156
3.	Profit (loss) on investment activities	- 10	
4.	Change in provisions	- 1 541	36
5.	Change in inventory	10	
6.	Change in receivables	1 288	- 23 332
7.	Change in short-term liabilities excluding credits and loans	- 1 446	4 486
8.	Change in prepayments and accruals	- 269	- 18
9.	Other adjustments	297	
III.	Net cash flows from operating activities (I+II)	- 1 974	- 17 331
B. Cash flows from investment activities			
I.	Inflows	1 553	1 500
1.	Disposal of intangible and tangible fixed assets	36	
3.	From financial assets, including:	1 517	1 500
a)	in related parties	1 500	1 500
b)	in other entities	17	
	sales of financial assets	17	
II.	Outflows	5 713	1 916
1.	Purchase of intangible assets and tangible fixed assets	670	
2.	For financial assets, including:	5 043	1 916
a)	in related parties	5 043	1 916
III.	Net cash flows from investment activities (I-II)	- 4 160	- 416
C. Cash flows from financial activities			
I.	Inflows	5 059	21 640
1.	Credits and loans		21 640
2.	Issuance of debt securities	4 999	
3.	Other inflows from financial activities	60	
II.	Outflows	1 533	4 547
1.	Repayment of credits and loans		2 000
2.	Redemption of debt securities	500	
3.	Interest	927	2 547
4.	Other outflows from financial activities	106	
III.	Net cash flows from financial activities (I-II)	3 526	17 093
D.	Total net cash flows	- 2 608	- 645
E.	Balance sheet change in cash, including:	2 608	654
F.	Cash opening balance	4 212	1 604
G.	Closing balance of cash (F+D), including:	1 604	950
	- of limited disposability	1 211	918

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9. Statement of changes in equity

No.	Item	Period	
		01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
I.	Equity (opening balance)	91 353	91 501
I.a	Equity (opening balance), after adjustments	91 353	91 501
1.	Opening balance of share capital	15 746	15 746
1.2	Closing balance of share capital	15 746	15 746
3.	Opening balance of supplementary capital	58 085	60 346
3.1	Changes in supplementary capital	6 261	148
a)	increase	6 261	148
	- profit sharing	6 261	148
3.2	Supplementary capital - closing balance, including:	60 346	60 493
4.	Other reserve capitals - opening balance	15 261	15 261
4.1	Other reserve capitals - closing balance	15 261	15 261
5.	Opening balance of profit (loss) carried forward from previous years	6 261	148
5.1	Opening balance of profit carried forward from previous years	6 261	148
5.2	Opening balance of profit carried forward from previous years, after adjustments	6 261	148
b)	decrease	6 261	148
	- Profit sharing	6 261	148
6.	Net result	148	322
a)	Net profit	148	322
II.	Equity (closing balance)	91 501	91 822
	<i>Proposed distribution of net profit</i>		
a)	Carried forward to supplementary capital	148	322
III.	Equity, after the proposed distribution of net profit (loss coverage)	91 501	91 822

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

1. Intangible assets

1.1 Changes in the value of intangible assets

Specification	Research and development expenses	Goodwill	Other intangible assets	Advances for intangible assets	Total
Gross value					
closing balance 31.12.2015	-	-	34	-	34
Increases, including:	-	-	-	7	7
- purchase	-	-	-	7	7
Decreases, including:	-	-	-	-	-
closing balance 31.12.2016	-	-	34	7	41
Cancellation					
closing balance 31.12.2015	-	-	12	-	12
Increases, including:	-	-	17	-	17
- amortization	-	-	17	-	17
Decreases, including:	-	-	-	-	-
closing balance 31.12.2016	-	-	29	-	29
Impairment charges					
closing balance 31.12.2015	-	-	-	-	-
closing balance 31.12.2016	-	-	-	-	-
Net value					
closing balance 31.12.2015	-	-	22	-	22
closing balance 31.12.2016	-	-	5	7	12

Intangible assets under development in the amount of PLN 7k are represented by advances paid to the supplier of IT software.

2. Tangible fixed assets

2.1 Changes in tangible fixed assets

Specification	Land (including right to perpetual usufruct)	Buildings, premises, civil and water engineering structures	Technical equipment and machines	Vehicles	Other tangible fixed assets	Total
Gross value						
closing balance 31.12.2015	565	-	-	-	9	574
closing balance 31.12.2016	565	-	-	-	9	574
Cancellation						
closing balance 31.12.2015	-	-	-	-	1	1
Increases, including:	-	-	-	-	2	2
- depreciation	-	-	-	-	2	2
closing balance 31.12.2016	-	-	-	-	3	3
Impairment charges						
closing balance 31.12.2015	14	-	-	-	-	14
closing balance 31.12.2016	14	-	-	-	-	14
Net value						
closing balance 31.12.2015	551	-	-	-	8	559
closing balance 31.12.2016	551	-	-	-	6	557

2.2 Value of land in perpetual usufruct

Specification	B.Z. 31.12.2015		B.Z. 31.12.2016	
	Area in sqm	Gross value	Area in sqm	Gross value
Plot of land in Sosnowiec no. 693	2 520,00	58	2 520,00	58
Plot of land in Wojkowice no. 293/5	6 376,00	140	6 376,00	140
Total	8 896,00	198	8 896,00	198

The value of land in perpetual usufruct is the value determined administratively in order to fix the perpetual usufruct fee. The value of land in perpetual usufruct located in Sosnowiec, due to its classification as wasteland, was subject to impairment charge in the books.

2.3 Non-amortized and non-depreciated fixed assets

The Company does not use fixed assets based on lease, rent or other agreements, including operating lease agreements, not presented in the Company's assets.

2.4 Tangible fixed assets under construction

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

2.5 Collateral established by the Company on assets

On 13 April 2015, the Company issued bonds in accordance with art. 9(3) of the Bonds Act of 29 June 1995.

To secure bondholders claims arising from the said bonds issue, the Company established registered pledge on non-dematerialized, registered shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. The number of pledged shares: A-series shares – 240, B-series shares – 1,000, C-series shares – 1,000 (100% of all shares). The registered pledge secures the secured receivables up to the collateral cap of PLN 37,200.00k.

Specification	Balance as at 31.12.2015			Balance as at 31.12.2016		
	Liability amount	Collateral value	Type of assets representing the collateral	Liability amount	Collateral value	Type of assets representing the collateral
Liabilities arising from the issue of securities	29 500	37 200	ENUT shares	29 500	37 200	ENUT shares
TOTAL	29 500	37 200	X	29 500	37 200	X

3. Long-term investments

3.1 Changes in the balance of long-term investments

Specification	Real property	Intangible assets	Long-term financial assets	Other long-term investments	Total long-term investments
Gross value					
31.12.2015	-	-	130 588	-	130 588
Increases, including:	-	-	659	-	659
- company purchase	-	-	659	-	659
31.12.2016	-	-	131 247	-	131 247
Revaluation					
31.12.2015	-	-	-	-	-
31.12.2016	-	-	-	-	-
Net value					
31.12.2015	-	-	130 588	-	130 588
31.12.2016	-	-	131 247	-	131 247

3.2 Changes in the balance of long-term financial assets in related parties and other entities

Specification	Shares	Other securities	Loans granted	Other long-term financial assets	Total
- in related parties					
Gross value					
closing balance 31.12.2015	130 588	-	-	-	130 588
Increases, including:	659	-	-	-	659
- purchase	659	-	-	-	659
Decreases, including:	-	-	-	-	-
closing balance 31.12.2016	131 247	-	-	-	131 247
Impairment charges					
closing balance 31.12.2015	-	-	-	-	-
closing balance 31.12.2016	-	-	-	-	-
Net value					
closing balance 31.12.2015	130 588	-	-	-	130 588
closing balance 31.12.2016	131 247	-	-	-	131 247

3.3 Shares in subsidiaries as at 31.12.2016

Name (registered office)	Impairment charges	Balance sheet value of shares	Share in equity (%)	Share in votes (%)	Share in net profit (loss) (%)	Equity as at the balance sheet date
Gross value of shares measured at purchase price						
1) EC Będzin spółka z o.o.						
80 987		80 987	100,00	100,00	100,00	122 978
2) Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A.						
49 600	-	49 600	100,00	100,00	100,00	47 147
TOTAL						
130 588		130 588				

3.4 Shares in associated entities as at 31.12.2016

Name (registered office)	Impairment charges	Balance sheet value of shares	Share in equity (%)	Share in votes (%)	Share in net profit (loss) (%)	Equity as at 31.12.2016
Gross value of shares measured at purchase price						
1) Promobil Fleet sp. z o. o.						
659	-	659	40,00	40,00	40,00	1 459
TOTAL						
659		650				

4. Deferred tax assets

Specification	Value of assets as at 31.12.2015	Value of assets as at 31.12.2016	Increase/ decrease of balance
- on events and items taken to financial result of the CURRENT YEAR			
1) Provision for examination of financial statements	7	3	-4
2) Provision for retirement severance payment	-	2	2
3) Provision for Unused holiday allowance	1	-	- 1
4) Provision for disability severance payment	1	-	- 1
5) Provision for liabilities arising from interest on bonds	30	51	21
6) Non-paid remuneration (other), including Social Insurance (ZUS) contributions	5	-	- 5
7) Tax loss	1 114	1 114	-
TOTAL	1 158	1 170	12

5. Short-term receivables

5.1 Age structure of short-term receivables

Specification	Current receivables	Past-due receivables, in days (by maturity dates)				Total
		0-90	90-180	180-360	above 360	
- from other entities:						
Supplies and services (net)	-	-	-	-	-	-
Pursued in court (net)	-	-	-	-	-	-
Other (net)	1 613	-	-	-	-	1 613

5.2 Impairment charges on short-term receivables (including those pursued in court)

As at 31.12.2016, impairment charges on short-term receivables totalled PLN 8k and have not changed versus the balance as at 31.12.2015. They fully applied to receivables arising from supplies and services provided by other entities.

6. Cash and equivalents

Cash and other pecuniary assets	Balance as at 31.12.2015	Balance as at 31.12.2016
1. Cash in hand and at bank:	404	28
a) PEKAO SA	404	25
b) ING Bank Śląski		3
2. Other cash:	1 200	922
a) investment account in BPS Brokerage House	1 200	918
b) PEKAO SA ZFŚS		5
3. Total cash presented in cash flows statement	1 604	950

7. Prepayments

Prepayments of expenses		Balance as at 31.12.2015	Balance as at 31.12.2016
1.	Domains, websites	1	1
2.	Insurance		7
Total		1	8

8. Equity

8.1 Equity structure

Item	Series/ issue Type of shares (stocks)	Type of privilege	Number of shares (stocks)	Value of series/ issue measured at nominal value	Equity coverage	Registration date	Right to dividend (as of)
1	A-series shares	ordinary	3 149 200	15 746	Transformation of legal form	18.02.1998	05.04.1993
Total equity		X	3 149 200	15 746	X	X	X

Shareholder	Number of shares	Value of shares	Shareholding %
Krzysztof Kwiatkowski	808 698	4 043	25.68
Waldemar Organista	688 146	3 441	21.85
Agio Funds TFI SA	334 747	1 674	10.63
Bank Przedsiębiorstwa Krajowego	311 355	1 557	9.89
Familiar SA, SICAV-SIR	271 526	1 358	8.62
State Treasury	157 466	787	5.00
Others	577 262	2 886	18.33
Total	3 149 200	15 746	100.00

8.2 Proposed distribution of profit gained in the accounting year

The Company's Management Board will propose to allocate net profit of PLN 322k to supplementary capital.

9. Provisions

9.1. Provision for deferred income tax

Event/ item	Provision as at 31.12.2015	Provision as at 31.12.2016	Increase/ decrease of balance
- on events and items taken to financial result of the current year			
1) difference in the balance sheet value and tax value of fixed assets covered by lease agreement	-	62	62
TOTAL	-	62	62

9.2 Provision for retirement and similar benefits

Specification	For retirement severance payments	Total
Balance as at 31.12.2015	10	10
Release of provision	2	2
Balance as at 31.12.2016	8	8

9.3 Other short-term provisions

Specification	Examination of statements	Total
Balance as at 31.12.2015	38	38
Increases	15	15
Utilisation	38	38
Balance as at 31.12.2016	15	15

10. Long-term liabilities

10.1 Age structure of long-term liabilities

Specification	Loans and credits	Issue of debt securities	Other	Total
- to related parties:				
closing balance 31.12.2015	-	-	-	-
Between 1 and 3 years	-	-	1 000	1 000
closing balance 31.12.2016	-	-	1 000	1 000
- to other entities:				
closing balance 31.12.2015	-	29 659	13 256	42 915
Between 1 and 3 years	5 230	29 768	10 999	45 997
Between 3 and 5 years	5 680	-	-	5 680
Above 5 years	6 280	-	3 500	9 780
closing balance 31.12.2016	17 190	29 768	14 499	62 457

10.2 Long-term liabilities arising from issued debt securities

Debt securities by type	Nominal value	Interest rate and margin	Redemption date	Guarantees/ collateral	Listing market
Bearer bonds	29 500	6M WIBOR+ margin of 4.5%	15.04.2018	To secure the bondholders claims and to meet the purpose of the issue, registered pledge was established on 100% of shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.	Non-listed bonds

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

In 2016 not recorded. In 2015, not recorded, either.

11. Conditional liabilities

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

12. Accruals

Specification	2016	2015
a) Accrued revenue	14	14
- Long-term	14	14
- Valuation of land in perpetual usufruct	14	14

13. Revenues from sales, by type and territory

Revenues from sales (by type of activity)	01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
Revenues from sales of products and services, including:	287	2 290
- leasing		1 866
- services	287	366
- other		58
Revenues from sales of goods and materials, including:	-	290
- sale of goods		290
<i>In above revenues, sales to related parties:</i>	274	424
- sales of services	274	366
- other sales	-	58
TOTAL	287	2 580

Elektrociepłownia "Będzin" S.A.

Revenues from sales (by territory)	01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
Total revenues from sales of products and services, including:	287	2 290
domestically	287	2 290
export	-	-
Total revenues from sales of goods and materials, including:	-	290
domestically	-	290
export	-	-
<i>In above revenues, sales to related parties:</i>	274	424
1. Revenues from sales of products and services	274	424
domestically	274	424
export	-	-
2. Revenues from sales of goods and materials	-	-
domestically	-	-
export	-	-
TOTAL	287	2 580

14. Costs by type

Specification	01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
Costs by type	2 136	1 168
Amortisation and depreciation	15	20
Consumption of materials and energy	1	-
External services	687	437
Taxes and charges	251	93
Payroll	741	524
Social security and other benefits	426	73
Other costs by type	15	21
Total costs by type	2 136	1 168
Change in the balance of inventory, products and in prepayments and accruals	-1 533	- 30
Manufacturing costs of products for internal purposes (negative value)		
Selling costs (negative value)		
General and administrative costs	- 603	-1 138
Manufacturing cost of products sold	-	-

15. Financial revenues

Specification		01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
I.	Dividend and profit sharing	1 500	1 500
	dividend	1 500	1 500
	<i>From related parties:</i>		
	ENERGO-UTECH S.A.	1 500	1 500
II.	Interest	43	3
	bank - deposits	43	3
III.	Other	60	50
	- other	60	
	- early repayment discount	-	50
TOTAL		1 603	1 553

16. Financial expenses

Specification		01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
I.	Interest	927	2 669
	a) interest on bonds	927	1 965
	- accrued and paid	768	1 856
	- accrued not paid	159	109
	b) interest on bank loans		650
	- accrued and paid		650
	d) Interest on outstanding tax and social insurance liabilities	-	22
	- accrued and paid	-	22
	e) on loan/ debt acquisition agreements		32
	- accrued and paid		19
	- accrued not paid		13
TOTAL		927	2 669

17. Reasons behind impairment charges on fixed assets

As at 31 December 2016, the impairment charges on fixed assets were PLN 14k and applied to land (wasteland) in perpetual usufruct.

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

In 2016 (and also in 2015), there was no discontinued activity. The Company does not plan to discontinue any activity in the next year.

19. Corporate income tax

19.1 Calculation of corporate income tax

01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
----------------------------	----------------------------

Balance sheet revenues			
1.	Sales of products and services	287	2 290
2.	Sales of goods and materials		290
3.	Other operating revenues	19	125
4.	Other financial revenues	1 602	1 553
5.	Change in the balance of products	1 533	30

The reporting period: 01.01.2016 – 31.12.2016
Round-ups: all amounts expressed in PLN k

Elektrociepłownia "Będzin" S.A.

Total		3 441	4 288
Revenues increasing tax base			
1.	Rental instalments		2 783
2.	Other	61	
Total		61	2 783
Revenues excluded from tax base			
1.	Dividend	1 500	1 500
2.	Accrued yet not received interest on receivables		-
3.	Release of provision		
4.	Change in the balance of products	1 533	30
5.	Provision for employee benefits		2
6.	Other	1	
Total		3 034	1 532
TAXABLE REVENUES		468	5 539

Balance sheet expenses			
1.	Core operating expenses	2 136	1 218
2.	Other operating expenses	19	29
3.	Financial activity expenses	1 415	2 669
Total		3 570	3 916
Non tax-deductible costs			
1.	Stationery and office supplies		1
2.	Property tax (for previous years)		57
3.	Business entertainment		5
4.	Business trips		1
5.	Non-obligatory membership fee		5
6.	Interest on outstanding tax and social insurance liabilities	-	22
7.	Accrued yet not paid interest on bonds	159	109
8.	Provisions raised	299	-
9.	Donations		11
10.	Accrued yet not paid interest on debt acquisition		13
11.	Other non tax-deductible costs	481	8
12.	Non paid benefits	24	
Total		963	232

Other adjustments of tax deductible costs			
1.	Tax amortization and depreciation of fixed assets		2 150
2.	Tax deductible costs not presented in books (cost of entering into lease agreement)		957
3.	Remuneration paid	51	
4.	Cost of advisory, examination of financial statements	329	
5.	Other	295	
Total		675	3 107
TOTAL TAX-DEDUCTIBLE COSTS		3 282	6 791

Corporate income tax base		- 2 814	- 1 252
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Elektrociepłownia "Będzin" S.A.

19.2 Deferred income tax

		01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
Deferred tax and other, including:		277	50
1.	Surtax	-	-
2.	Deferred tax assets	277	12
3.	Provisions for deferred tax assets (1-2+3)	-	62
TOTAL INCOME TAX		277	50

19.3 Tax losses brought forward to next years

Year	Tax loss amount	Settled		Outstanding settlement	Last year to settle tax loss
		In year	amount		
2013	5 825	2014	2 774	3 051	2018
2015	2 814			2 814	2020
2016	1 252			1 252	2021
Total	9 891	x	2 774	7 117	x

20. Interest and foreign exchange differences increasing the purchase price of goods or manufacturing costs of products

In 2016, the Company did not record any interest and foreign exchange differences increasing the purchase price of goods or manufacturing costs of products.

21. Capital expenditures incurred and planned for the next 12 months of the balance sheet date

Capital expenditures incurred between 1 January 2016 and 31 December 2016 total PLN 25 807k, of which:

- leased out funds PLN 25 800k,
- IT software PLN 7k,

Capital expenditures planned for the next 12 months of the balance sheet date:

- IT software PLN 34k

22. Explanations to cash flows statement

Specification		01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
1.	Amortization and depreciation	15	19
	Amortization of intangible assets	15	17
	Depreciation of fixed assets		2
2.	Interest and profit sharing (dividend) include:	- 467	1 156
	Interest paid on credits		19
	Interest paid on loans and leasing		650
	Interest on outstanding tax and social insurance liabilities		22
	Interest on debt securities	927	1 965
	Transactional costs of bond issue	107	
	Dividends received	- 1 500	- 1 500
3.	Change in the balance of receivables	1 288	- 23 332
	Change in the balance of short-term receivables resulting from balance sheet	7 788	- 1 610

Elektrociepłownia "Będzin" S.A.

	Change in the balance of long-term receivables resulting from balance sheet		- 22 365
	Adjustment by the change in the balance of receivables arising from advances for intangible fixed assets	- 6 500	- 7
	Adjustment by the change in the balance of receivables arising from advances for tangible fixed assets		650
5.	Change in the balance of short-term liabilities, except for loans and credits	1 446	4 486
	Change in the balance of short-term liabilities resulting from balance sheet	1 446	6 936
	Adjustment by repaid loan amount		- 2 450

23. Information about the economic nature and purpose of off-balance sheet agreements entered into by the Company

Similarly as in 2015, all agreements entered into by the Company in 2016 were balance sheet agreements.

24. Transactions with related parties

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

Company name	Receivables	Liabilities	Revenues	Expenses
	Balance as at 31.12.2016		Between 01.01.2016 and 31.12.2016	
ETF-L ENERGU-UTECH SA		1 930	169	167
Elektrociepłownia Będzin sp. z o. o.			255	14

25. Manpower

Employee groups		01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
1	Production employees	0	0
2	Non-production employees	5	6
Total		5	6

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

Specification		01.01.2015 - 31.12.2015	01.01.2016 - 31.12.2016
1	Management units	12	12
2	Supervisory units	254	257
Total		266	269

As at 31 December 2016, there were no loans and similar benefits for executives holding positions in management, supervisory or administrative boards and units.

27. Remuneration of chartered auditor (entity authorised to examine 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 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 45k plus VAT.

Elektrociepłownia "Będzin" S.A.

In 2015, pursuant to agreements 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 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 72k plus VAT.

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

No significant events referring to previous years occurred.

29. Events occurring after the balance sheet date, presented in the financial statements

No significant events not presented in the financial statements occurred after the balance sheet date.

30. Amendments to accounting principles/ error adjustment

There were no amendments to accounting principles.

31. Information about non-consolidated joint enterprises

Not applicable.

32. Information about consolidated financial statements

The Company produces consolidated financial statements due to the presence of subsidiaries in the Group. Elektrociepłownia "Będzin" S.A. is the parent entity of the Capital Group.

33. Merger of companies

No mergers occurred in the accounting year.

34. Continued activity

In introduction to audited financial statements of the Company for the year ending on 31 December 2016, the Management Board informed that the financial statements had been produced at the assumption that the Company would continue business activity for the term not shorter than 12 months as of 31 December 2016 and that there were no circumstances, whatsoever, indicating any threats to said continuation of business activity by the Company.

35. Information about financial instruments

Risk management encompasses risk identification and assessment processes as well as risk management procedures. The Company's Management Board determines the general risk management principles and policies on specific risk types.

FX risk

The Company is not exposed to FX risk arising from foreign currency buy and sell transactions as transactions related to the business operations are made on the domestic. The Company has not entered into FX risk hedging transactions.

Interest rate risk

The Company is exposed to the risk of cash flows volatility triggered by floating interest rates on assets and liabilities, as well as to the risk of fair value volatility triggered by fixed interest rate assets and liabilities. The Company mitigates the interest rate risk through:

- adequate composition of the mix of floating and fixed interest rate assets and liabilities,
- entering into transactions with financial institutions of high credit rating.

The Company has not applied interest rate risk hedging instruments. As regards interest rates in the forthcoming reporting periods, the Company might be exposed to the interest rate risk triggered by liabilities arising from the issue of debt securities as the Company issued floating interest rate bonds in the total amount of PLN 30m.

Credit risk

The Company is not exposed to the credit risk of financial transactions as it cooperates with financial institutions of high credit rating. According to the Company, a marginal credit risk (a merchant loan) is driven by receivables from supplies and services. The policy of ongoing monitoring of customers applied by the Company and consisting in the assessment of said customers' repayment capacity allows to verify the credit risk in this area, both at the offering stage and at contract delivery stage. The Company reevaluates the receivables by applying impairment charges raised for receivables from debtors in liquidation or bankruptcy, those who question the debt or are in arrears as at the balance sheet date if assessment of their business and financial standing indicates that debt repayment is rather unlikely in the nearest future (for more information – see the short term liabilities note and the change in the balance of provisions on short-term receivables note). The aggregated sum of impairment charges on short-term receivables is PLN 8k as at 31 December 2016.

Elektrociepłownia "Będzin" S.A.

Financial liquidity risk

The liquidity risk is the risk of difficulties in the Company's fulfilment of obligations triggered by financial liabilities settled through transfer of funds or other pecuniary assets. The Company manages its liquidity by ensuring by all means the liquidity sufficient to settle due and payable liabilities, both in standard and crisis scenario, without exposing itself to the risk of unacceptable losses or reputational risk. To this end, the Company monitors the cash flows, maintain valid credit lines and ensures funds in the amount sufficient to cover the anticipated operating and capital expenses, as well as, current financial liabilities. Moreover, it meets the assumed liquidity ratios.

Pricing risk

Relevant pricing policy, organisational structure and procedures, as well as risk management actions support the process of negotiating and fixing prices for the Company's products at the optimum level.

Fair value change risk

The Company is not significantly exposed to the risk of floating fair value of available-for-sale financial assets because the amount of available-for-sale financial assets was PLN 0k.

Capital risk management

The purpose of the capital risk management is to maintain the ability to continue business operations by the Company so that to ensure benefits to the shareholders and to other stakeholders and to maintain the optimum capital structure.

Information about interest rate risk

Profile of financial instruments

CLASSIFICATION OF FINANCIAL INSTRUMENTS	BALANCE SHEET VALUE	TERMS AND CONDITIONS DETERMINING THE FUTURE CASH FLOWS
Financial assets	950	
Cash	950	
Issue of debt securities	29 768	Interest rate at 6M WIBOR 6M plus margin of 4.5 p.p. Maturity date scheduled for 10 April 2018
Investment loan	19 640	Interest rate at 1M WIBOR 6M plus margin of 2.3p.p. Maturity date scheduled for 20 February 2023
Debt acquisition	1 000	Interest rate at 4% per annum Maturity date scheduled for 30 June 2018
Debt acquisition	931	Interest rate at 1M WIBOR 6M plus margin of 3p.p. Maturity date scheduled for 19 January 2017
Leasing receivables	23 973	Interest rate at IRR of 0.7570% Maturity date scheduled for 20 October 2025

As at the balance sheet date, the portfolio of financial assets and debt financial instruments is as follows:

FIXED INTEREST RATE FINANCIAL INSTRUMENTS	BALANCE SHEET VALUE AS AT 31 DECEMBER 2016	BALANCE SHEET VALUE AS AT 31 DECEMBER 2015
Financial assets	950	1 604

FLOATING INTEREST RATE FINANCIAL INSTRUMENTS	BALANCE SHEET VALUE AS AT 31 DECEMBER 2016	BALANCE SHEET VALUE AS AT 31 DECEMBER 2015
Leasing receivables	23 973	
Financial liabilities arising from issue of debt securities	29 768	29 659
Credit liabilities	19 640	
Debt acquisition liabilities	1 930	

Information about credit risk

The Company's maximum exposure to credit risk is represented by the balance sheet value of the following financial assets:

FINANCIAL ASSETS	BALANCE SHEET VALUE AS AT 31 DECEMBER 2016	BALANCE SHEET VALUE AS AT 31 DECEMBER 2015
Leasing receivables	23 973	
Cash	950	1 604
Total	24 923	2 254

FINANCIAL LIABILITIES	BALANCE SHEET VALUE AS AT 31 DECEMBER 2016	BALANCE SHEET VALUE AS AT 31 DECEMBER 2015
Financial liabilities arising from issue of debt securities	29 768	29 659
Credit liabilities	19 640	
Debt acquisition liabilities	1 930	
Total	51 338	29 659

36. Other important information facilitating the Company's assessment

The Conditional Sale Agreement of 28.09.2015 on the purchase of machines and equipment located in Dąbrowa Górnicza, entered into by and between Elektrociepłownia Będzin S.A. and INDUSTRIA S.A., came into force and effect on 08.02.2016. Moreover, the Lease Agreement entered into by and between Elektrociepłownia "Będzin" S.A. and TAMEH Sp. on 01.10.2015, came into force and effect on 08.02.2016. The subject of the foregoing agreement is the lease of the aforementioned machines and equipment. The Agreement was made for 120 months. The rent will be payable by the 15th of each month.

On 15.02.2016, the Company and ING Bank Śląski S.A. entered into Agreement on corporate PLN loan for financing of investments and refinancing of capital expenditures incurred by the Company on investment consisting in the purchase of machines and equipment located in Dąbrowa Górnicza. The loan amount is PLN 21,640k. The loan is secured, amongst others, by registered pledge on machines and equipment located in Dąbrowa Górnicza, leased pursuant to the aforementioned Lease Agreement, as well as, by assignment of rights from the agreement on the lease of the investment asset and by assignment of rights from insurance policy on machines and equipment.

SA - R - 2016
Annual non-consolidated financial statements

Elektrociepłownia "Będzin" S.A.

Krzysztof Kwiatkowski - President of the Management Board

Bożena Poznańska - Author of financial statements

Poznań, 21 March 2017

**Management Board Report on
Elektrociepłownia Będzin S.A.
on the Company's activity in 2016**

Elektrociepłownia Będzin S.A.



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I INTRODUCTION

The Management Board of Elektrociepłownia Będzin S.A. hereby presents the Management Board Report on the Company's Activity the accounting year 2016, prepared on the basis of the Accounting Law and 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 2009.33.259, as amended).

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

On 4 August 2014, the Company and the subsidiary, namely Elektrociepłownia BĘDZIN p. z o.o. entered into agreement on the assignment of ownership title to the enterprise, whereby the Company transferred the ownership rights to the Company's enterprise onto the subsidiary Elektrociepłownia BĘDZIN Sp. z o.o. as per art. 551 of the Civil Code.

In exchange for the contribution of the organised part of the enterprise Elektrociepłownia Będzin S.A. acquired 100% of shares in the subsidiary, i.e. Elektrociepłownia BĘDZIN Sp. z o.o. of the nominal value of PLN 76,820k. The shareholding value results from the net book value of contributed assets totalling PLN 80,987k as at 31 December 2014.

On 27 February 2015 the Supervisory Board of Elektrociepłownia "Będzin" S.A. passed the resolution on agreeing to purchase 100% shares of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. and the ownership rights to Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. were transferred onto Elektrociepłownia "Będzin" S.A. on 15 April 2015.

The aforementioned transaction led to the Company's becoming the sole owner holding 100%, i.e. 2,240 share of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. The purchase of the shares was financed with the Company's own funds raised through, amongst others, the issue of bonds. The final tranche of the payment for the foregoing shares, of PLN 10,998.56k, as stated in the agreements, is scheduled to mature on 30 June 2018. The main reasons behind the acquisition of shares in Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. include the establishment of the Capital Group in accordance with strategic assumptions and diversification of income sources.

On 30 June 2016 by force of the agreements, Elektrociepłownia "Będzin" S.A. purchased 54 shares of ProMobil Fleet Sp. z o.o. representing 40% of the company's shares.

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

As a consequence of the above transactions, the Company became a holding company. The activity in the field of cogeneration through combined heat and power (CHP) is carried

out in the subsidiary, Elektrociepłownia BĘDZIN Sp. z o.o., while the financial services, mainly leasing, is carried out in the subsidiary, Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A.. In 2016 the Company took actions aimed to commence the activity in the form of lease and rent of machines, equipment and tangible assets.

Principles of preparing the 2016 financial statements are included in the introduction to the financial statements.

II CORE INFORMATION ABOUT THE COMPANY

1. Core data

Since 1998, the Company's shares have been quoted at Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).

The Company's share capital amounts to PLN 15 746 000 and is divided into 3 149 200 A series shares of the nominal value of PLN 5 each.

The activity of Elektrociepłownia "Będzin" S.A. is regulated by the Company's Statute and by the Commercial Companies Code.

Company name:	Elektrociepłownia "Będzin" Spółka Akcyjna The Company has the right to use an abbreviated name: Elektrociepłownia "Będzin" S.A.
Legal form:	Joint-stock company
Registration country:	Poland
Registered office:	Poznań
Address:	61-144 Poznań, ul. Bolesława Krzywoustego 7
Telephone:	(48 61) 227 57 10-11
Fax:	(48 61) 227 57 12
e-mail:	ecbedzin@ecb.com.pl
Website:	www.ecbedzin.pl
REGON (statistical company registration number)	271740563
NIP (taxpayer identification number):	PL 625-000-76-15
KRS (National Court Register registration number)	0000064511

According to the Statute and the entry in the National Court Register, the core activity of Elektrociepłownia Będzin S.A. is:

- the activity of financial holding companies,
- lease and rent of other machines, equipment and tangible assets.

2. Company authorities

2.1 Management Board

As of 3 November 2014 Elektrociepłownia "Będzin" S.A. has been managed by sole member of the Management Board, Krzysztof Kwiatkowski - President of the Management Board.

2.2 Supervisory Board

As at 31 December 2016, the Supervisory Board of the eighth term of office was composed of the following individuals:

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

2.3 Audit Committee

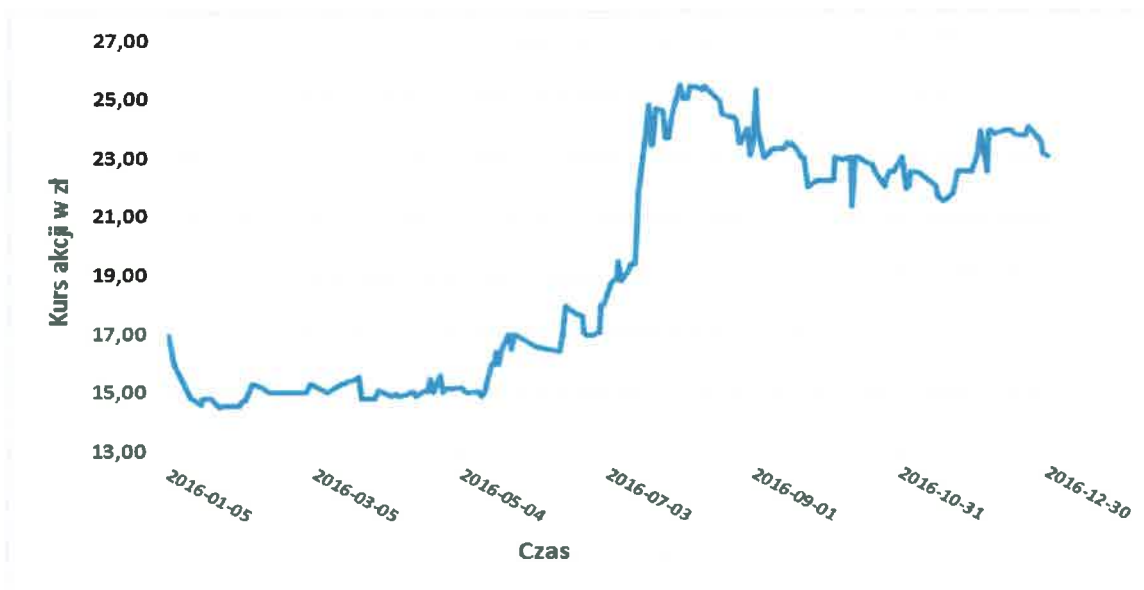
As at 2016 year end, the composition of the Audit Committee was as follows:

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

The Audit Committee is an advisory body of the Supervisory Board, to which it presents its recommendations. In particular, the Audit Committee recommends to the Supervisory Board an entity authorised to examine the financial statements and to perform financial audit of the Company's financial statements.

3. Securities of the Company listed on the stock market

The stock price of Elektrociepłownia "Będzin" S.A. shares is presented in the chart below.



4. Intangible assets

4.1 Manpower

Item	As at 31.12.2016 in FTEs	As at 31.12.2015 in FTEs
Total manpower	5	5
including:		
Management Board	1	1
Administration	4	4

4.2 Personnel changes in 2016

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.

4.3 Payroll system in the Company

The Company complies with the commonly applicable remuneration regulations.

4.4 Average monthly remuneration, excluding remuneration of the Company's Management Board in the years 2015-2016

Payroll fund	Average monthly remuneration, excluding remuneration of the Company's Management Board in PLN/ month	
	2016	2015
Total remuneration	4 117.48	8 006.11
Remuneration without severance payment	4 117.48	7 795.05
Remuneration without interim payments *	4 117.48	6 937.54

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

III ECONOMIC AND FINANCIAL HIGHLIGHTS

Selected balance sheet items

(in PLN k)

Specification	2016	2015
Total assets	157 922	134 586
Current assets	2 571	1 608
Inventory	0	0
Short-term receivables	1 613	3
Funds	950	1 604
Short-term accrued expenses	8	1
Equity capital	91 822	91 501
Provisions for liabilities	85	48
Long-term liabilities	62 457	42 915
Short-term liabilities	3 544	108
Accruals and deferred income	14	14

Ratios	2016	2015
Total debt ratio ¹	0.42	0.32
HCR Liquidity ratio - quick ²	0.73	14.89
CR Liquidity ratio- current ³	0.73	14.89

¹ total liabilities to total assets

² current assets less inventory to short-term liabilities

³ current assets (inventory, receivables and claims, securities held specifically for trading, cash and prepayments) to short-term liabilities

The structure of costs by type

The structure of costs by type is presented in the following table.

(in PLN k)

Specification	Performance I-XII 2016	Cost structure in% I-XII 2016	Performance I-XII 2015	Cost structure in % I-XII 2015
Amortization and depreciation	20	1.5	15	0.7
Consumption of materials and energy	0		1	0.1
External services	437	35.9	687	32.2
Taxes and charges	93	7.6	251	11.7
Payroll	524	43.0	741	34.7
Social security and other benefits	73	6.1	426	19.9
Other costs by type	21	1.7	15	0.7
Value of goods and materials sold	50	4.2	0	0
Total costs	1 218	100.0	2 136	100.0

Financial result

**Elektrociepłownia "Będzin" S.A. closed the year 2016
with net profit of PLN 322k**

Financial result	years	
	2016 PLN k	2015 PLN k
EBITDA*	1 507	-302
Business performance	372	-129
Profit (loss) on operating activity	1 488	-317
Profit (loss) on financial activity	-1 116	188
Gross profit (loss)	372	-129
Income tax	50	- 277
Net profit (loss)	322	148

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

The above financial data of the year 2016 present the Company's performance generated in effect of exercising the supervisory role towards the supervisory companies and in effect of the service provision activity (rent).

IV MAJOR RISK FACTORS EMBEDDED IN THE COMPANY ACTIVITY

Risks involved in the Company's activity result from the risks of activity of Elektrociepłownia "Będzin" S.A. Capital Group. The strategy of the Capital Group focuses around management and development of the currently operational segments in terms of cogeneration through combined heat and power (CHP) and financial services, mainly in the field of leasing activity.

The Company and the Capital Group cannot assure that their strategic goals will be achieved. The market where the Company and the Capital Group operate continuously changes and direction and intensity of said changes depend on numerous factors.

The market position in the years to come and, in consequence, the future revenues and gains of the Company and the Capital Group, depend on the ability to develop and implement a long-term strategy.

V CORPORATE GOVERNANCE

The 2016 corporate governance statement of Elektrociepłownia "Będzin" S.A. is presented in Annex 1.

VI PROCEEDINGS BEFORE COURT, COMPETENT ARBITRATION AUTHORITY OR PUBLIC ADMINISTRATION AUTHORITY

No court cases, either filed by or against Elektrociepłownia "Będzin" S.A. are pending.

VII INFORMATION ABOUT CORE PRODUCTS, SALE MARKETS, SOURCES OF SUPPLY AND MAJOR OFFTAKERS

Due to the Company's dominant position in the Capital Group, the Company performs strategic management functions concerning the entire holding structure. The production activity in the area of cogeneration through combined heat and power (CHP) is carried out in the subsidiary company, Elektrociepłownia Będzin Sp. z o.o., while the financial activity is performed by the subsidiary company, Energetyczne Towarzystwo Finansowo- Leasingowe Energo - Utech S.A.

VIII INFORMATION ABOUT VALID CONTRACTS SIGNIFICANT TO THE ACTIVITY OF ELEKTROCIEPŁOWNIA "BĘDZIN" S.A. IN 2016

On 23 January 2015, Elektrociepłownia "Będzin" S.A. and BPS S.A. Brokerage House signed an agreement on underwriting a bond issuance. By force of said agreement, the Company issued floating interest rate bonds of the total nominal value of PLN 30 000k, with the redemption date scheduled by 15 April 2018.

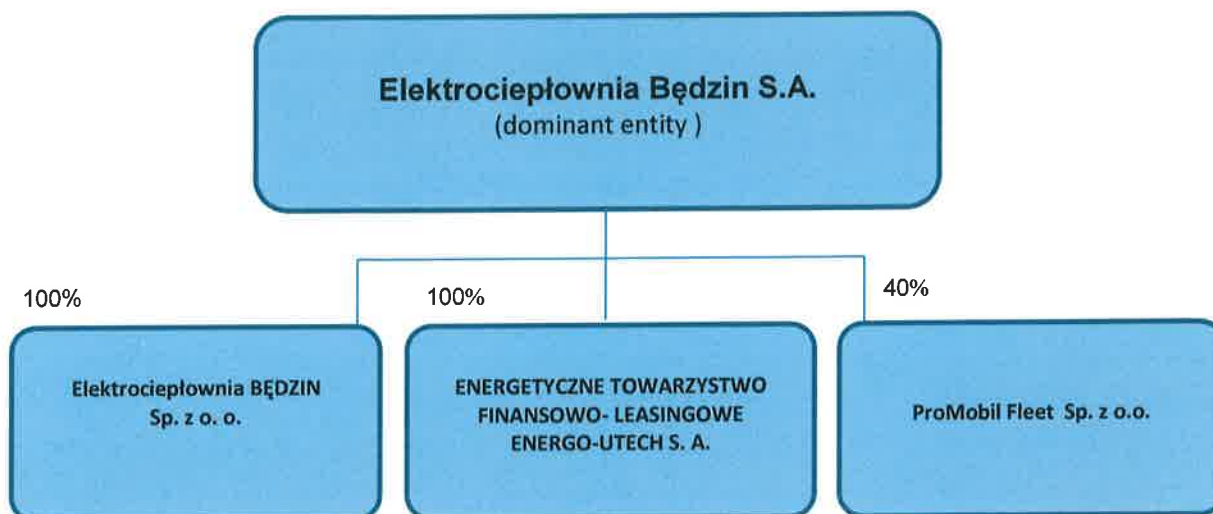
On 2 April 2015, Elektrociepłownia "Będzin" S.A. and Przedsiębiorstwem Usługowym UTECH Sp. z o.o. entered into agreement on the purchase of the block of 1,118 shares and agreement on conditional purchase of the block of 224 shares of items of shares of Energetycznego Towarzystwa Finansowo-Leasingowego Energo-Utech S.A. According to agreements, the final tranche of payment for the shares of PLN10,998.56k matures on 30 June 2018. Additionally, on 15 April 2015, 896 shares of ETFL Energo Utech were bought from PGE Energia Odnawialna S.A.

On 15 February 2016, Elektrociepłownia "Będzin" S.A. acquired assets of a significant value in the form of fixed assets group 4-5. The value of the purchased assets amounts to PLN 25.8m. The purchased assets will be utilised in lease and rent of machines and equipment segment. On 8 February 2016, the Company entered into agreement on the lease of assets from Tameh Polska Sp. z o.o. Taking into account the contractual terms, the agreement is presented in the Company's books as a financial lease agreement.

On 15 February 2016, the Company and ING Bank Śląski S.A. with the registered office in Katowice at ul. Sokolskiej 34, entered into a corporate loan agreement on financing an investment and refinancing of incurred capital expenditures of PLN 21 649k.

IX INFORMATION ABOUT THE COMPANY'S ORGANISATIONAL OR CAPITAL CONNECTIONS WITH OTHER ENTITIES

The structure of Elektrociepłownia "Będzin" S.A. Capital Group



X INFORMATION ABOUT SIGNIFICANT NON ARM'S LENGTH TRANSACTIONS MADE BY THE COMPANY OR ITS SUBSIDIARY WITH CONNECTED ENTITIES

Elektrociepłownia "Będzin" S.A did not make any non-arm's length transactions with connected entities.

XI INFORMATION ABOUT SIGNED AND TERMINATED AGREEMENTS ON LOANS AND CREDITS

On 15 February 2016, the Company and ING Bank Śląski S.A. with the registered office in Katowice at ul. 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.

XII INFORMATION ABOUT PROVIDED LOANS

In 2016, Elektrociepłownia "Będzin" S.A. did not provide loans to other entities.

XIII INFORMATION ABOUT PROVIDED AND RECEIVED GUARANTEES AND WARRANTIES

Registered pledge established on shares and stock of Elektrociepłownia "Będzin" S.A. subsidiaries represent collateral for the financing provided to the Company.

XIV EXPLANATION OF DIFFERENCES BETWEEN FINANCIAL RESULTS PRESENTED IN THE ANNUAL REPORT AND PREVIOUSLY PUBLISHED ANNUAL PROJECTIONS

Elektrociepłownia "Będzin" S.A. did not publish any projections.

XV ASSESSMENT AND JUSTIFICATION OF FINANCIAL RESOURCES MANAGEMENT

In 2016, Elektrociepłownia "Będzin" S.A. settled all its financial liabilities as scheduled. The financial standing does not pose any threat to the fulfilment of financial liabilities going forward.

XVI ASSESSMENT OF FEASIBILITY OF INVESTMENT PLANS, INCLUDING EQUITY INVESTMENTS, IN COMPARISON TO AVAILABLE FUNDS

According to the accepted strategic assumptions, Elektrociepłownia "Będzin" S.A. purchased a block of shares (100%) of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. and on 15 April 2016, ownership rights to Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. shares were transferred onto Elektrociepłownia "Będzin" S.A. The acquisition of shares was financed with proceeds from the bond issuance and with the Company's own funds, and the final tranche of payment for the shares, amounting to PLN 10,998.56, is scheduled for 30 June 2018.

On 13 April 2015, the Company carried out bond issuance 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 30,000.00.

XVII CHARACTERISTICS OF EXTERNAL AND INTERNAL FACTORS SIGNIFICANT TO THE DEVELOPMENT OF THE COMPANY AND DESCRIPTION OF PROSPECTS FOR THE DEVELOPMENT OF THE COMPANY

Strategy implementation and planned development of the Capital Group

The strategic objective of Elektrociepłownia "Będzin" S.A. within the Capital Group is pursuit to obtain a strong position in the heat and power industry, with the use of environment-friendly technologies. The essential obligation is compliance with environment protection regulations effective since 2016. Equally, attention is paid to the development of the financial segment services.

The Company is going to follow the strategy of the Capital Group by continuation and development of the activity, paralleled by due care about the environment and reduction of costs connected with heat and power generation, as well as, expansion of the economic activity in the area of financial services.

The strategy will be executed through:

- development of the existing Capital Group,
- acquisitions of entities from the energy industry, allowing the benefit from synergy throughout different business areas of the newly created Capital Group,
- development of leasing services in the energy and electricity sector and related sectors, in connection with the offer to finance investment processes,
- further development of factoring services.

Significant development factors

Factors having a strong impact on the development of the Company include, amongst others, the following:

- macroeconomic environment in Poland and macroeconomic environment of the areas in which the Capital Group companies operate, including Zagłębie Dąbrowskie (the Dąbrowa Basin), where the Company carries out its business activity,
- factors of political character,
- legal and regulatory environment,
- stances and decisions of state and European administrative institutions and units (including the Office of Competition and Consumer Protection, the Energy Regulatory Office and the European Commission),
- environment protection,
- situation in the heating, energy and electricity sector (decisions of the Energy Regulatory Office President on approval of tariffs, CO₂ emission allowances, demand for heat and electrical power, competition on the heat and energy market),
- the financial sector sentiment (availability of short-term and long-term forms of activity financing, the volatility of interest rates),
- reaction of the market to new kinds of financial services offered by the Capital Group, mainly in the energy industry.

XVIII CHANGES IN THE MAIN PRINCIPLES OF MANAGING THE ISSUER'S ENTERPRISE, CAPITAL GROUP AND ASSOCIATED ENTITY

Elektrociepłownia "Będzin" S.A., acting within the Capital Group, exercises permanent corporate governance through the General Meeting of Shareholders of the following entities:

- Elektrociepłownia BĘDZIN Sp. z o.o.
- Energetyczne Towarzystwo Finansowo-Leasingowe ENERGO-UTECH S.A.
- ProMobil Fleet Sp. z o.o.

Elektrociepłownia "Będzin" S.A. structure includes the Corporate Governance and Investor Relations Department in charge of the Company issues, among others, the Company's obligations stipulated by the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, as well as Regulation of the

Minister of Finance 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 2014.133).

XIX AGREEMENTS BETWEEN THE ISSUER AND PERSONS HOLDING MANAGERIAL POSITIONS, PROVIDING FOR COMPENSATION IN CASE OF THEIR RESIGNATION OR DISMISSAL FROM POSITIONS WITHOUT MATERIAL REASONS, OR WHEN THEIR REMOVAL OR DISMISSAL RESULTS FROM THE ISSUER'S MERGER THROUGH ACQUISITION

Between 1 January 2016 and 31 December 2016, the Company did not enter into any agreements with persons holding managerial positions.

XX THE VALUE OF REMUNERATION, AWARDS OR BENEFITS RESULTING FROM INCENTIVE OR BONUS SCHEMES BASED ON THE ISSUER'S EQUITY

Information about remuneration, including profit sharing, paid or due to persons holding positions in the Company's management, supervisory or administrative authorities. (in PLNk).

Item	Professional groups	2016	2015
1.	Management authorities	12	12
2.	Supervisory authorities	257	254
TOTAL		269	266

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

XXI TOTAL NUMBER AND NOMINAL VALUE OF ALL OF THE ISSUER'S SHARES

The Company's share capital totalled PLN 15 746k and was divided into 3 149 200 A series ordinary bearer shares, marked with numbers from A00000001 to A03149200, of the nominal value of PLN 5.00 each.

Shareholdings of major shareholders.

As at 31 December 2016, according to information available to Elektrociepłownia "Będzin" S.A., the shareholders holding over 5% of the Company's share capital and the same % of votes at the annual general meeting are as follows:

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 za łącznymi, 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

XXII INFORMATION ABOUT AGREEMENTS KNOWN TO THE ISSUERS (INCLUDING THOSE ENTERED INTO AFTER THE BALANCE SHEET DATE) WHEREBY THE HOLDING OF CURRENT SHAREHOLDERS AND BONDHOLDERS MAY CHANGE IN THE FUTURE

As at the date of these financial statements the issuer is not aware of any agreements whereby the holding of current shareholders and bondholders may change in the future.

XXIII INFORMATION ABOUT THE EMPLOYEE STOCK OWNERSHIP PLAN CONTROL SYSTEMS

No employee stock ownership plans exist in the Company, therefore no employee stock ownership plan control systems apply.

XXIV INFORMATION ABOUT ENTITY AUTHORIZED TO AUDIT THE FINANCIAL STATEMENTS

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 45k plus VAT.

In 2015, pursuant to agreements 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 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 72k plus VAT.

XXV ADDITIONAL INFORMATION

On 15 February 2016, Elektrociepłownia "Będzin" S.A. acquired assets of a significant value in the form of fixed assets group 4-5. The value of the purchased assets amounts to PLN 25.8m. The purchased assets will be utilised in the lease and rent of machines and equipment segment.

On 15 February 2016, the Company and ING Bank Śląski S.A. with the registered office in Katowice at ul. Sokolskiej 34, entered into a corporate 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 investment.

On 22 July 2016, the Company acceded the debt of Energetyczne Towarzystwo Finansowo-Leasingowe Energo-Utech S.A. arising from three factoring agreements of 22 July 2016 on the acquisition and financing of leasing receivables, said agreements no.: 879/07/2016, 880/07/2016 and 881/07/2016, whereby PKO BP Faktoring 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.

Krzysztof Kwiatkowski - President of the Management Board

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Poznań, 21 March 2017

Declaration on Corporate Governance 2016
Appendix 1 to

Report of the Management Board
of Elektrociepłownia Będzin S.A.
on the Company's activity in 2016

Elektrociepłownia "Będzin" S.A.



Appendix 1

Declaration on Corporate Governance 2016

In 2016, the 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 Elektrociepłownia "Będzin" S.A. Capital Group apply IT and organisational solutions controlling and securing access to the financial-accounting system and ensuring relevant protection and archiving of accounting books. Access to IT systems is restricted through access rights granted to authorised personnel only.

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

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

4. The Company's majority shareholders

Shareholding of 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
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

5. Holders of securities exercising special control powers

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

6. Restrictions in exercising voting rights attached to shares

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

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

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

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

8.1 Management Board

Principles of appointing and dismissing Members of the Management Board

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

Competences of the Management Board

The Management Board manages the Company's issues and represents the Company in all court and out of court cases not restricted by applicable law or the Company's Statute as those within the powers of the Annual General Meeting of Shareholders or the Supervisory Board. Detailed principles of the Management Board operations are presented in the Management Board Terms of Reference adopted by the Management Board and approved by the Supervisory Board.

In accordance with the Company's Statute, all matters beyond the competence of the ordinary management require resolutions of the Management Board, in particular issues listed in the table below:

Table 2. Competences of the Management Board

Matters requiring the Management Board resolution
<ol style="list-style-type: none">1. The Company's organisational regulations,2. Taking out credits and loans,3. Granting loan guarantees and tangible security,4. Adaptation of annual business plan,5. Any matters which the Management Board needs to refer to the Annual General Meeting or the Supervisory Board.

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

8.2 Supervisory Board

Principles of appointing and dismissing Members of the Supervisory Board

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

Competences of the Supervisory Board

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

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

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

Table no. 3. Competences of the Supervisory Board

Matters requiring the Supervisory Board resolution
1. Accepting the rules and regulations of the Management Board of the Company and passing opinions concerning the organizational rules and regulations which describe the organization of business activity of the Company,
2. Accepting the business plan,
3. Adopting the rules of remuneration of the Management Board and the amount of remuneration for the members of the Management Board of the Company,
4. Appointing and dismissing the members of Management Board and the whole Management Board in secret ballot,
5. Suspending due to significant reasons one or more members of the Management Board in secret ballot,
6. Appointing a member or members of the Supervisory Board to perform temporarily the duties of the member of the Management Board of the Company in the event of suspension or dismissal of members of the Management Board or the whole Management Board or when the Management Board is unable to perform its duties due to other reasons,
7. Granting permission for opening branches abroad upon motion of the Management Board,
8. Upon motion of the Management Board, granting members of the Management Board permission to hold posts in the management of other companies which shares or stocks the Company possesses and to receive remuneration for those activities,
9. Selecting a chartered auditor to perform the audit of the financial statements,

10. Assessing the financial statements regarding its compliance with the books and documents and the actual state of affairs,
11. Assessing the report on the Company's activity and the motions of the Management Board concerning the distribution of profits and covering the losses,
12. Submitting a written report on results of activities referred to in item 10 and 11 to the Annual General Meeting,
13. Consent to establishment of a different entity by the Company, to taking over or purchasing shares or stocks of a different company in order to secure the financial credibility of the Company and in the case of 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:
 - 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 Węgorzewicz | - 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.

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