



Energa

**SUPERVISORY BOARD REPORT
ENERGA SPÓŁKA AKCYJNA**

**ON THE EVALUATION OF THE FINANCIAL STATEMENTS,
MANAGEMENT BOARD REPORT ON THE COMPANY'S
ACTIVITY AND MANAGEMENT BOARD MOTION ON
DISTRIBUTION OF NET PROFIT**

**for the period
from 1 January 2016 to 31 December 2016**

Warsaw, May 2017

Introduction

Pursuant to Article 382 § 3 of the Commercial Company Code, the Supervisory Board has familiarized itself with:

- 1) Financial statements prepared in accordance with International Financial Reporting Standards as endorsed by the European Union, for the year ended 31 December 2016, which include: statement of profit or loss, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, accounting principles (policies) and other notes,
- 2) Management Board Report on the activity of ENERGA SA for the year ended 31 December 2016,
- 3) Opinion of an independent statutory auditor for the ENERGA SA General Meeting and Supervisory Board and Supplementary Report on the audit of the financial statements for the financial year ended 31 December 2016, prepared by the Company's auditors PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw,
- 4) Management Board's motion on distribution of the 2016 net profit together with justification,
- 5) Opinion of the Audit Committee on financial statements and consolidated financial statements for the financial year 2016 and evaluation of independence of the financial review process and effectiveness of the internal control and risk management systems.

1. Findings regarding the financial statements

The "Opinion..." prepared by the Company's auditors, PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, states that the financial statements of ENERGA SA, in all material respects:

- a. *"are a reliable and clear presentation of the Company's economic and financial position as at 31 December 2016 and its financial result and cash flows for the financial year from 1 January 2016 to 31 December 2016 in accordance with the International Financial Reporting Standards (IFRS) approved by the European Union and the accepted accounting policies;*
- b. *are consistent in their form and content with the provisions of law applicable to the Company, including the requirements of the Finance Minister's Regulation of 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent ("Regulation" – Journal of Laws of 2014, Item 133) and the Company's Articles of Association;*
- c. *have been prepared on the basis of correctly kept accounting ledgers."*

The Report on the audit of the financial statements for the financial year from 1 January 2016 to 31 December 2016 presents:

- general description of the Company,
- information about the completed audit,
- description of results, financial standing of the entity and important items of the financial statements,
- assertions of the independent statutory auditor
- information and final comments.

The auditor stated, among others, that:

- a. *"During the audit, the Company's Management Board presented the requested information, explanations and statements and submitted a representation on completely capturing data in the accounting ledgers and on indicating all contingent liabilities and provided information on significant events which occurred between the balance sheet date and the date of submission of the representation."*
- b. *"The scope of the audit was unlimited."*

The statutory auditor additionally assessed the correctness of operation of the accounting system. In particular, it assessed the following:

- correctness of the documentation of business operations,
- reliability, accuracy and verifiability of the accounting ledgers, including those kept using a computer,
- applied methods of protecting access to data and the computer-operated data processing system,
- protection of the accounting documentation, accounting ledgers and financial statements.

This assessment, coupled with the verification of reliability of individual line items on the financial statements, allowed it to express a general comprehensive opinion on those statements.

Following an analysis and discussion (with the participation of the statutory auditor and the Company) of the draft statements listed in the introduction, ENERGA SA's Supervisory Board Audit Committee issued a positive opinion on them, concluding that they had been prepared in accordance with the prevailing regulations and correctly reflect the financial result.

The Supervisory Board subscribes to the above and moves to the Annual General Meeting to approve the financial statements of ENERGA SA for the year ended 31 December 2016, pursuant to Article 393 Item 1 of the Commercial Company Code.

2. Findings regarding the Management Board report on ENERGA SA's activity for 2016

The statutory auditor stated that *"The information contained in the Company's activity report for the financial year from 1 January 2016 to 31 December 2016 gives consideration to Article 49 section 2 of the Accounting Act and the Regulation complies with the information included in the audited financial statements.*

Additionally, in light of knowledge about the Company and its environment obtained during our audit, we have found no material misstatements in the activity report.

In the representation on the observance of corporate governance principles, which forms part of the activity report, the Company included information with the content specified in the Regulation. Such information is consistent with the applicable regulations and with information contained in the financial statements."

In addition, the Audit Committee concluded that the Management Board report on ENERGA SA's activity for the year ended 31 December 2016 correctly reflects the scope of the activity conducted in 2016.

The Supervisory Board subscribes to the above and moves to the Annual General Meeting to approve the ENERGA SA's Management Board report on the Company's activity for the year ended 31 December 2016, pursuant to Article 393 Item 1 of the Commercial Company Code.

3. Opinion on the economic justification for the Company's capital exposure to other commercial companies

On 25 April 2016, a decision was made to increase the share capital of ENERGA Kogeneracja Sp. z o.o. by PLN 510,000,000 and for ENERGA SA to subscribe to the new shares. The purpose of the recapitalization was for ENERGA Kogeneracja Sp. z o.o. to subscribe to shares in Polska Grupa Górnicza Sp. z o.o. The capital increase was registered by the National Court Register on 22 June 2016.

Another decision to recapitalize ENERGA Kogeneracja Sp. z o.o. was made on 16 December 2016 and involved a share capital increase by PLN 5,080,500, in exchange for a contribution in kind in the form of assets constituting the Pilot Cogeneration System in Żychlin worth PLN 12,981,050. The capital increase was registered on 3 February 2017.

In 2016, ENERGA SA also directly acquired shares in several companies owned by the ENERGA Group in connection with the capital restructuring strategy aimed at achieving greater oversight over companies executing strategic projects.

Following an agreement of 28 September 2016, ENERGA SA acquired an equity stake in Elektrownia Ostrołęka SA (100%) from ENERGA Wytwarzanie SA in the total amount of PLN 198,000,000. The purpose of the acquisition was, among others, for ENERGA SA to obtain direct oversight over the execution of a strategic project involving the preparation, construction and then operation of the Ostrołęka Power Plant (Ostrołęka C).

Following an agreement of 28 December 2016, ENERGA SA acquired an equity stake in ENERGA Invest SA (100%) from ENERGA Wytwarzanie SA with the total value of PLN 67,700,000. This transaction enabled ENERGA SA to exercise direct oversight over the projects executed by ENERGA Invest SA, including the strategic project named "Wisła".

On 20 June 2016, 100% shares in ENSPIRION Sp. z o.o. with the total value of PLN 24,000,000 was acquired from ENERGA-OBRÓT SA. The change was an element of ENERGA Group's innovation policy and its purpose was to centralize the innovation area by obtaining direct oversight over an entity supporting development of long-term innovation projects.

On 19 October 2016, a founding deed of ElectroMobility Poland Sp. z o.o. was signed, as a result of which ENERGA SA subscribed to shares in the Company with the total value of PLN 2,500,000. This was an implementation of one of ENERGA Group's key strategic objectives, i.e. promotion of electric vehicles.

4. Assessment of Management Board's motion on distribution of profit

Following an analysis of the justification for distribution of the net profit for 2016 in the amount of PLN 783,542,643.96, the Supervisory Board hereby gives a positive opinion about the Management Board's motion calling for:

- 1) payment of a dividend to shareholders in the amount of PLN 78,672,751.66, that is PLN 0.19 per share;
- 2) allocation of profit in the amount of PLN 704,869,892.30 to supplementary capital.

At the same time, after evaluating the Company's financial statements and the Management Board report on ENERGA SA's activity in 2016, it moves to grant a discharge to the following Members of Company's Management Board on the performance of their duties:

- 1) in the period from 1 January 2016 to 3 January 2016, to Mr. Seweryn Piotr Kędra,**
- 2) in the period from 4 January 2016 to 26 February 2016, to Mr. Roman Pionkowski,**
- 3) in the period from 4 January 2016 to 31 December 2016, to:**
 - a) Mr. Dariusz Kaśków,**
 - b) Mr. Mariusz Rędaszka,**
- 4) in the period from 1 February 2016 to 31 December 2016, to Mr. Grzegorz Ksepko,**
- 5) in the period from 21 March 2016 to 31 December 2016, to:**
 - a) Mr. Przemysław Piesiewicz,**
 - b) Ms. Mariola Anna Zmudzińska.**

Date of the report: 29 May 2017

Signatures of the attending Supervisory Board Members:

CHAIRWOMAN	Paula Ziemiecka-Księżak
DEPUTY CHAIRMAN	Zbigniew Wtulich
SECRETARY	Agnieszka Terlikowska-Kulesza
MEMBER	Marek Szczepaniec
MEMBER	Maciej Żółtkiewicz