



Energa

**ENERGA SPÓŁKA AKCYJNA
SUPERVISORY BOARD ACTIVITY REPORT**

FOR 2016

Warsaw, May 2017

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1. Information about the term of the Supervisory Board and its activity during this term

Currently the Supervisory Board of ENERGA SA operates in the fourth Term of Office, which, pursuant to § 18 section 4 of the Company's Articles of Association, lasts three years and started on 20 May 2014. The year 2016 was the third year of activity of the Supervisory Board of the current Term of Office.

2. Composition of the Supervisory Board, functions performed in the Supervisory Board, changes in the composition of the Supervisory Board during the financial year

In the financial year 2016, the ENERGA SA Supervisory Board was composed of the following persons:

- 1) in the period from 1 January to 3 January 2016:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Bogdan Skalski – Supervisory Board Secretary,
 - d) Jarosław Mioduszeński – Supervisory Board Member,
 - e) Mirosław Szreder – Supervisory Board Member,
 - f) Roman Pionkowski – Supervisory Board Member,
- 2) in the period from 3 January to 7 January 2016:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Bogdan Skalski – Supervisory Board Secretary,
 - d) Jarosław Mioduszeński – Supervisory Board Member,
 - e) Mirosław Szreder – Supervisory Board Member,
- 3) in the period from 7 January 2016 to 8 September 2016:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Bogdan Skalski – Supervisory Board Secretary,
 - d) Andrzej Powałowski – Supervisory Board Member,
 - e) Marek Szczepaniec – Supervisory Board Member,
 - f) Maciej Żółtkiewicz – Supervisory Board Member,
- 4) in the period from 8 September 2016 to 30 December 2016:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
 - d) Andrzej Powałowski – Supervisory Board Member,
 - e) Marek Szczepaniec – Supervisory Board Member,
 - f) Maciej Żółtkiewicz – Supervisory Board Member,
- 5) in the period from 30 December 2016 to 10 February 2017:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,
 - b) Zbigniew Wtulich – Supervisory Board Deputy Chairman,
 - c) Agnieszka Terlikowska-Kulesza – Supervisory Board Secretary,
 - d) Andrzej Powałowski – Supervisory Board Member,
 - e) Marek Szczepaniec – Supervisory Board Member,
 - f) Maciej Żółtkiewicz – Supervisory Board Member,
 - g) Jacek Kościelniak – Supervisory Board Member.
- 6) in the period from 10 February 2016 until the date of preparing this Report:
 - a) Paula Ziemiecka-Księżak – Supervisory Board Chairwoman,

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| b) Zbigniew Wtulich | – | Supervisory Board Deputy Chairman, |
| c) Agnieszka Terlikowska-Kulesza | – | Supervisory Board Secretary, |
| d) Andrzej Powałowski | – | Supervisory Board Member, |
| e) Marek Szczepaniec | – | Supervisory Board Member, |
| f) Maciej Żółtkiewicz | – | Supervisory Board Member. |

In connection with his appointment to the Company's Management Board, Mr. Roman Pionkowski tendered his resignation from membership in the Supervisory Board as of 3 January 2016.

As of 7 January 2016 the Extraordinary General Meeting of ENERGA SA dismissed Mr. Jarosław Mioduszewski and Mr. Mirosław Szreder from the ENERGA SA Supervisory Board and appointed three Supervisory Board Members for its fourth term of office, i.e. Mr. Andrzej Powałowski, Mr. Marek Szczepaniec and Mr. Maciej Żółtkiewicz.

As of 8 September 2016, Mr. Bogdan Skalski was dismissed from the Supervisory Board by a declaration of the Minister of Energy and Ms. Agnieszka Terlikowska-Kulesza was appointed.

As of 30 December 2016, Mr. Jacek Kościelniak was appointed to the Supervisory Board by a declaration of the Minister of Energy.

On 17 January 2017, Mr. Jacek Kościelniak was delegated by the Company's Supervisory Board to act temporarily in the capacity of a Management Board Member responsible for managing the Company for a period of up to three months from the date of delegation. Then, in connection with his appointment to the Company's Management Board, Mr. Jacek Kościelniak tendered his resignation from membership in the Supervisory Board as of 10 February 2017.

Mr. Andrzej Powałowski and Mr. Marek Szczepaniec satisfy the criteria envisaged for independent supervisory board members within the meaning of 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, taking into account the requirements following from the Code of Best Practice for Warsaw Stock Exchange Listed Companies.

3. Information about the number of meetings held and resolutions adopted by Supervisory Board

In 2016, the ENERGA SA Supervisory Board held 17 meetings and adopted 107 resolutions.

In 2016, the Supervisory Board meetings were held on the following dates: 19 and 22 January, 1 and 26 February, 17 and 19 March, 9 and 25 April, 24 May, 22 June, 22 July, 8-9 August, 20 September, 21 October, 15 and 30 November and 20 December.

The Supervisory Board also adopted resolutions by voting using remote means of direct communication on the following dates: 25 March, 30 May and 27 September.

4. Information on attendance of Supervisory Board Members at the meetings and resolutions adopted, with excused and not excused absences

In 2016 two Supervisory Board meetings were held without full attendance, namely:

- 1) on 26 February, Mr. Andrzej Powałowski and Mr. Maciej Żółtkiewicz were absent from the meeting,
- 2) on 19 March, Mr. Andrzej Powałowski was absent from the meeting.

In each case, Supervisory Board members made a decision in the form of a resolution to justify absences on the basis of information provided by the Supervisory Board members on the reasons for their absences.

5. Key issues addressed by the Supervisory Board and conducted inspections and explanatory proceedings

The most important matters handled by the Supervisory Board in the financial year 2016 included, among others:

- 1) conducting executive search procedures for ENERGA SA Management Board members and determining the rules for and amount of compensation for ENERGA SA Management Board members,
- 2) approving the "Organizational Bylaws of the Enterprise of ENERGA Spółka Akcyjna",
- 3) analyzing the current economic and financial position of the Company and the Group and the execution and return on the investments conducted in the ENERGA Group,
- 4) issuing opinions on actions related to the implementation of investment projects in the ENERGA Group,
- 5) issuing opinions on amendments to the Articles of Association of ENERGA SA,
- 6) approving the Rules for sponsorship activity conducted by the ENERGA Group,
- 7) approving the ENERGA Group Strategy for 2016-2025, the Long-Term Plan of Strategic Investments of the ENERGA Group and the Long-Term Financial Model of the ENERGA Group.

Additionally, in 2016, the Supervisory Board decided on how to vote during general meetings of subsidiaries in the scope resulting from the Company's Articles of Association, approved the physical and financial plans of ENERGA SA and the ENERGA Group, evaluated financial statements and consolidated financial statements for the 2015 financial year with the motion to distribute profit and it monitored the Management Board's execution of the sponsoring activity plan.

Additionally, the Supervisory Board conducted an ongoing quarterly review of resolutions adopted by the ENERGA SA Management Board.

In 2016, no inspections or explanatory proceedings were conducted in the Company.

6. Information on the implementation of resolutions adopted by the General Meeting related to the Supervisory Board's activity

In 2016, the General Meeting of ENERGA SA did not adopt any resolutions related to the Supervisory Board's activity.

As part of its reporting duties, the Supervisory Board, jointly with the ENERGA SA Management Board, sent quarterly information about the Company to the Department of Control and Oversight of the Ministry of Energy in line with the prescribed deadlines and in compliance with the guidelines issued in this respect. As regards the F-01 Reports for the

months ending each quarter, the Ministry of Energy received them as an attachment to the Company's quarterly information.

7. Information on fulfillment of a strategic or remedial program

In 2016, the Company's Management Board conducted intensive work, which was finalized on 15 November 2016 with adoption of resolutions by the Company's Supervisory Board approving the following documents:

- 1) ENERGA Group's Strategy for 2016-2025,
- 2) Long-Term Plan of Strategic Investments of the ENERGA Group for 2016-2025.

The recent decline in profitability throughout the power sector has forced leading European and Polish utility groups to revise their strategies. The conduct of business activity based on the previous business model could result, in the medium term, in deteriorated performance and lower valuation of utility companies. Continuing operations solely on the basis of existing assets while preserving the previous business model could lead to a gradual decline in the ENERGA Group's earnings, both in the medium and long-term. Efforts aimed at maintaining or improving the financial results will require adaptation to new trends: development of distributed generation and renewable energy sources, attempts at improving energy efficiency and emergence of new technologies, players and business models in the market. Accordingly, it was necessary to adjust the ENERGA Group's business model to the new challenges.

In order to solidify the position of the ENERGA Group as an innovative customer-oriented utility group, taking into account a stable business foundation based on predictable regulations, the Strategy assumes two areas of business development and value creation, namely Infrastructure and Customer, within which the following strategic objectives and programs of the ENERGA Group have been identified:

8. Information on the Supervisory Board suspending Management Board members in the performance of their duties and delegating Supervisory Board members to act as Management Board members

In the financial year 2016, no ENERGA SA Management Board members were suspended in the performance of their duties.

Mr. Roman Pionkowski, delegated by the Company's Supervisory Board to act temporarily in the capacity of the Company's Management Board member responsible for managing the Company, tendered his resignation from membership in the Supervisory Board as of 3 January 2016 in connection with his appointment to the Company's Management Board.

9. Information on the Supervisory Board's decisions on selecting the auditor, ordering expert opinions, etc.

In 2014, the Company's Supervisory Board selected the authorized entity PricewaterhouseCoopers Sp. z o.o. in Warsaw, to be the statutory auditor to audit the financial statements and consolidated financial statements of ENERGA SA and the ENERGA

Group and to provide other affirmation services for the financial years 2015, 2016 and 2017. In connection with a proposal received by the authorized entity PricewaterhouseCoopers Sp. z o.o. referring to an increase of its fee for conducting the audit for the financial year 2017 (which was higher than the amount proposed in the bid, which was the main selection criterion), the Supervisory Board decided to launch a new competition procedure and then selected an authorized entity KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. in Warsaw, to be the statutory auditor to audit the financial statements and consolidated financial statements of ENERGA SA and the ENERGA Group and to provide other affirmation services for the financial years 2017 and 2018.

10. Committees operating within the framework of the Company's Supervisory Board

The following Committees operate within the framework of the ENERGA SA Supervisory Board:

- 1) Audit Committee,
- 2) Nomination and Compensation Committee.

The rules of operation of the Committees and their tasks performed in 2016 are presented in the following documents:

- 1) Activity Report of the Audit Committee for 2016,
 - 2) Activity Report of the Nomination and Compensation Committee for 2016,
- which are attached to this report.

11. Evaluation of the Supervisory Board's work

Members of the Supervisory Board of ENERGA SA applied due care and commitment and used their extensive knowledge, competence and experience to exercise oversight over the Company's activity as outlined in this report.

The persons who sat on the ENERGA SA Supervisory Board were highly qualified in economics, finance and law and had long-term experience in discharging functions in management and supervisory bodies of commercial companies.

Members of the Company's Management Board and the Company's employees responsible for the matters addressed by the Supervisory Board provided all the information and explanations required by the Supervisory Board to perform its duties.

12. Evaluation of the manner in which the Company fulfills its duty to disclose information on its application of corporate governance principles

In 2016, ENERGA SA and its authorities are subject to corporate governance rules, which are described in the set adopted by Resolution No. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange on 13 October 2015 as "Code of Best Practice for WSE Listed Companies 2016" (hereinafter: Code of Best Practice, DPSN). The document is available on the website of the Warsaw Stock Exchange and on the Company's website in the "Investor Relations" tab.

On 5 January 2016, the Company, using the Electronic Information Database (the EBI system) transmitted a report on the satisfaction of DPSN principles, in which the

Management Board of ENERGA SA has declared that it accepted and would apply the corporate governance principles set forth in the above document, with the exception of:

- 1) detailed principles: I.Z.1.16, IV.Z.2 and I.Z.I.20 concerning the transmission of general meetings and publication of the recordings on the Company's website; the wording of the Company's Articles of Association in effect until December 2016 did not envisage the use of the means of electronic communication during general meetings. On 15 December 2016, the General Meeting approved the changes in the ENERGA SA Articles of Association governing the transmission of general meetings and publication of the recordings on the Company's website, which means that the above principles will be applied starting in 2017;
- 2) Principle III.Z.3 – the Company does not meet the requirement of standard 1110-1 only in respect to the organizational independence, that is appointment and dismissal of an Internal Audit Head and approval and changes of his/her remuneration. The standard mentioned above is defined in the International Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors. Additionally the Internal Audit Head is not functionally subordinated to the Supervisory Board;
- 3) since no decision on the publication of projections has been made, in light of the Finance Minister's regulation on current and periodic information of 19 February 2009, detailed principle I.Z.1.10 was also not be applied.

The following principles were also analyzed: I.Z.1.14, II.Z.1 (in conjunction with I.Z.1.3), II.Z.10.3, II.Z.10.4, V.Z.6, VI.Z.1, VI.Z.4. After the analyses are completed, the Company will update its position on the application of those principles. The final deadline for that update will be the Company's Annual General Meeting, since some of the principles being amended concern documents submitted to the Annual General Meeting and its transmission.

According to the Finance Minister's Regulation of 19 February 2009 in the matter of current and periodic information provided by issuers of securities, ENERGA SA posted a representation on the application of corporate governance principles in the unconsolidated and consolidated Management Board Report for 2016 published on 30 March 2017.

On the ENERGA SA's investor relations website, the corporate governance tab contains a collection of documents available for download, including the current DPSN document, EIB reports, ENERGA Group's Code of Ethics.

The ENERGA SA Supervisory Board hereby issues a positive opinion on how the Company fulfilled its duty to disclose information on its application of corporate governance principles in 2016.

13. Evaluation of rationality of the Company's policy on sponsoring, charitable or other similar activities

ENERGA SA conducted the Group's sponsoring activity in accordance with its universal promotion and image-building nature, based on the 2016 Sponsoring Activity Framework and ENERGA Group's Sponsorship Principles. It was reviewed by an independent auditor to evaluate its efficiency and rationale, in line with the recommendations included in the regulation published on 15 June 2016 entitled "Best sponsorship practices for companies with State Treasury holding" and the ENERGA Group's Sponsorship Principles updated on its

basis. The review of the activities was presented in the annual Efficiency Report on Sponsorship Activity conducted by the ENERGA Group in 2016 and included:

- 1) review of sponsorship activities to verify the long-term assumptions made for ENERGA Group's sponsorship activity, which include:
 - a) popularization (building of reach, defined as brand awareness),
 - b) differentiation, defined as brand recognition (among competitive activities),
 - c) promotion of sales and support of sales activities,
 - d) promotion of the Polish affiliation of the ENERGA branch, understood as an element of the national energy security system,
- 2) evaluation of efficiency of sponsorship projects, to verify their viability, defined as achieving the intended results at the lowest possible cost,
- 3) report on the execution of sponsorship activities, serving the purpose of analyzing efficiency of and rationale for agreements signed with entities sponsored by the ENERGA Group.

The review has shown that the average efficiency of the 202 sponsorship projects executed by the ENERGA Group in 2016 was 159%.

Moreover, the ENERGA Group has been involved in efforts to help the needy for years now. To carry out those actions, the ENERGA Foundation was established in 2009. It was registered in the National Court Register on 1 April 2009 and on 13 September 2011 it received the public benefit organization status.

The mission of the ENERGA Foundation is to support those in need, mainly children who are less fortunate. The foundation also supports the elderly and victims of natural disasters. It co-finances hospital wards and palliative care units. It supports the statutory activity of organizations providing aid in small local communities. It provides aid to voluntary fire brigades and paramedics. It contributes to the assistance for less fortunate employees and families of ENERGA Group employees.

The main form of this assistance is cash donations, however the Foundation is also an organization that gives advice and guidance on the care system, information on solutions available to the problems at hand. While the Foundation is unable to support all those who request it, it adopts an action plan, which it implements based on its articles of association and bylaws. All of its activities are recorded in reports, as required by the Act on Public Benefit Organizations. Substantive and financial reports summarizing each year of the Foundation's activity are available on the ENERGA Foundation website.

In 2016, the ENERGA Foundation conveyed donations in the total amount of PLN 3,756,960 to beneficiaries in each of the 16 voivodships.

The Foundation's expenditures are made based on the accepted annual budget divided into specific segments and a leading theme showing the priorities of activities within the annual framework. Based on this formula, the theme for 2016 was "Health care and paramedic services".

Projects form a separate part of the plan. The "Help with Energa" project integrates ENERGA Group employees around local public benefit organizations. The participants vote for an organization of their choice. Then, the votes are converted into a specific amount that is donated to the specified public benefit organization. In 2016, 6008 Group employees took part in the project and more than PLN 600,000 was donated to public benefit organizations.

During the seven past edition, this campaign saw PLN 4,938,900 donated to organizations supporting children, youth, the disabled and those fighting terminal diseases.

The ENERGA Foundation co-organized the project named "Active and Charitable", which serves the purpose of integrating Group employees, their relatives and friends with the idea of an active lifestyle. The participants run, march, bike, roller-skate etc. to cover a specific distance together (500,000 km in 2016). If that goal is achieved, the cash donation is conveyed to selected kinship placement units. In 2016, five hundred people participated in the project lasting from May to September. In three editions of the program, donations of PLN 500,000 were provided to twenty six orphanages. The goal of the first edition was to equip them with bicycles. Donations from the second edition were used for purchases of sports clothing and sports and outdoor equipment. The third edition co-funded summer vacation trips.

In the "Caring for Sleep" project, the ENERGA Foundation provided aid to all the children in Poland suffering from congenital central hypoventilation syndrome (CCHS), a rare disease also known as Ondine's curse. The little patients require constant daily multi-directional rehabilitation where the supply of electricity is required to secure their life functions (a respirator must operate during their sleep). In this program, almost PLN 200,000 was donated to cover the expenditures related to rehabilitation and treatment.

In addition to the activities undertaken by the ENERGA Foundation, Group employees undertake numerous volunteering activities. They organize holiday campaigns, preparing parcels for poor families, they extend care to their colleagues who lost their ability to work due to an accident and require help.

The Supervisory Board believes that in 2016 the Company conducted a rational policy on sponsoring, charitable or other similar activities.

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