



Energa

**ACTIVITY REPORT
OF THE ENERGA SA SUPERVISORY BOARD
AUDIT COMMITTEE**

FOR 2016

Gdańsk, May 2017

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1. Operation of the Audit Committee

The principles of the Audit Committee's operation are set forth in the Supervisory Board Bylaws. The Audit Committee is also subject to the provisions of the Code of Best Practices for Warsaw Stock Exchange Listed Companies, excluding the rules for which the Company's Management Board submitted a non-compliance declaration.

The Audit Committee operates as a collective body and serves as an advisory and opining body of the Supervisory Board.

The tasks of the Audit Committee include in particular the following:

- 1) monitoring the financial reporting process,
- 2) monitoring the reliability of financial information presented by the Company,
- 3) monitoring the effective operation of internal control, internal audit and risk management systems in place in the Company,
- 4) monitoring the performance of financial audit activities,
- 5) monitoring whether the auditor and the entity authorized to audit financial statements are independent and objective, including if they provide services other than financial review,
- 6) recommending an entity authorized to audit financial statements and to conduct financial review activities to the Supervisory Board.

2. Composition of the Audit Committee and evaluation of its activity

The ENERGA SA Supervisory Board Audit Committee has been operating since 20 March 2013, when the Company's Supervisory Board made a decision to appoint it and approve its Operation Bylaws.

In the financial year 2016, the Audit Committee was composed of the following persons:

- 1) in the period from 1 January 2016 to 7 January 2016:
 - a) Mirosław Szreder – Committee Chairman,
 - b) Jarosław Mioduszewski,
 - c) Zbigniew Wtulich;
- 2) in the period from 7 January to 22 January 2016 - in connection with the dismissal of Mr. Mirosław Szreder and Mr. Jarosław Mioduszewski from the Supervisory Board, only Mr. Zbigniew Wtulich was in the Audit Committee,
- 3) in the period from 22 January 2016 to this date:
 - a) Mr. Marek Szczepaniec – Audit Committee Chairman (since 14 March 2016),
 - b) Andrzej Powąłowski,
 - c) Zbigniew Wtulich.

As a result of changes to the composition of the Supervisory Board effected by the Company's General Meeting on 7 January 2016, i.e. the dismissal of Mr. Jarosław Mioduszewski and Mr. Mirosław Szreder, Mr. Zbigniew Wtulich remained in the Audit Committee.

On 22 January 2016, the Company's Supervisory Board filled the vacancies in the Audit Committee by appointing Mr. Marek Szczepaniec and Mr. Andrzej Powąłowski.

Mr. Marek Szczepaniec has been the Audit Committee Chairman since 14 March 2016.

Marek Szczepaniec graduated from the University of Gdańsk. Currently he is a professor at the Gdańsk University (from 2008) and professor at the Kazimierz Wielki University in Bydgoszcz (from 2014). In 1993-2001 he worked as a consultant at the Polish-American Small Business Advisory Foundation. In 1992-2006 he was a consultant of the B.P.S. Consultants Poland. From 2006 he has been a co-owner and vice-president of a research firm called Qualifact. He specializes in research on entrepreneurship, human capital, economic growth, behavioral finance and corporate marketing strategies. He is the author of over 150 research reports, scientific articles and other publications. The following companies from the banking sector, among others, used his reports and studies: PKO Bank Polski, BZ WBK, Credit Agricole, BNP Paribas, Pekao SA, ING, mBank; from the insurance sector: PZU, Warta, Compensa, Allianz, Aviva; from the fuel sector: LOTOS Group, PKN Orlen, BP, Total. He managed market research for Elektrociepłownia Wybrzeże and the ENERGA Group and is the author of a study entitled "Energy company customer service models. Global trends".

Andrzej Powalowski studied from 1969 to 1973 at the Faculty of Law and Administration in the Nicolaus Copernicus University in Toruń. In 1973 he started to work as an assistant in the National Economy Management Law Section at the Faculty of Law and Administration in the University of Gdańsk. In 1980 he obtained the title of doctor of legal sciences and was employed at the position of assistant professor. From 1992 he worked on the position of senior lecturer at the Public Economic Law Faculty and from 1994 at the Public Economic Law and Environmental Protection Faculty. In 2009 he obtained the title of habilitated doctor of legal sciences in the area of public economic law.

In 2010 he was nominated to the position of associate professor of Gdańsk University. At the Law and Administration Faculty in the University of Gdańsk he is currently the head of the Public Economic Law Section and head of the post-graduate study programs entitled "Legal conditions for conduct of economic activity" and "Public procurement law and system". He is also a lecturer at the Off-Site Faculty of the Gdańsk School of Higher Education in Olsztyn. He was employed as an associate professor of the Baltic College of the Humanities and the Real Estate Management College. Author of numerous publications in the form of books and articles for scientific magazines; he is a member of the governing bodies of non-governmental organizations and scientific periodicals. He worked as a legal advisor and since 2010 he has been an advocate in his own law firm in Gdańsk. He discharges the function of arbitrator at the International Court of Arbitration at the Polish Chamber of Maritime Commerce.

Zbigniew Wtulich graduated from the Faculty of Drainage and Water Engineering at the Warsaw University of Life Sciences. He started his professional career in 1984 as a Designer Assistant in the Water Drainage Design Department. Then he became a construction engineer in the Regional Drainage Projects Enterprise. Worked as an engineer in a foreign company "Amak" (construction industry), was employed by the State Treasury Agricultural Property Agency. Before appointment to the Company's Supervisory Board, Zbigniew Wtulich discharged the function of chief specialist at the State Treasury Department of Assets Records at the State Treasury Ministry, chief specialist - team coordinator at the State Treasury Revaporization and Compensation Department at the State Treasury Ministry, sub-department head at the Reprivatization and Share Delivery Department of the State Treasury Ministry, sub-department head in the Records, Reprivatization, Compensation and Share Delivery Department. He also discharged the function of the Supervisory Board member in

Zakłady Tworzyw Sztucznych „GAMRAT” SA and in Przedsiębiorstwo Gospodarki Wodnej i Rekultywacji SA. Supervisory Board member of PGE Górnictwo i Energetyka S.A. Discharges the function of sub-department head in the State Treasury Department of Assets at the State Treasury Ministry. Zbigniew Wtulich has served on the Company's Supervisory Board since March 2011, and Audit Committee since June 2014.

Mr. Marek Szczepaniec and Mr. Andrzej Powalowski 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 Practices for Warsaw Stock Exchange Listed Companies.

3. Information on Audit Committee meetings

In 2015, the Committee held 5 meetings with all members in attendance.

The Audit Committee issued recommendations and adopted resolutions in the following matters:

- 1) acceptance of the internal audit plan for 2016,
- 2) evaluation of effectiveness of the internal control system,
- 3) opinions on the Company's financial statements, Management Board report on the Company's activity , consolidated financial statements of the ENERGA SA Capital Group and report on the activity of the Company's Capital Group for the 2015 financial year,
- 4) adoption of the report on the Audit Committee's activity in 2015,
- 5) adoption of the Audit Committee work plan for 2016,
- 6) recommendation regarding selection of an auditor to audit the financial statements and perform other assurance services for financial years 2017-2018.

4. Material issues addressed by the Audit Committee

The Audit Committee fulfilled its duties in accordance with the scope of the powers entrusted to it and the adopted work plan. It agreed with Supervisory Board Members the annual Audit Committee work plan, in particular as regards the Supervisory Board's expectations. In addition the Committee Chairperson, with the participation of the other members, presented information on execution of the Audit Committee's tasks at Supervisory Board meetings.

The most important matters examined by the Audit Committee in the 2016 financial year included:

- 1) review of semi-annual and quarterly reports,
- 2) review and evaluation of the insurance policy,
- 3) analysis of agreements entered into by ENERGA SA, together with assigned costs,
- 4) review of transactions with related entities,
- 5) evaluation of the internal control system,
- 6) discussion, with participation of the statutory auditor, of the results of review of the Company's and ENERGA Group's financial statements for financial year 2015,
- 7) issuing opinions on:
 - a) the Company's financial statements for the financial year 2015,
 - b) the Management Board's activity report for 2015,

- c) the consolidated financial statements of the ENERGA SA Group for the financial year 2015,
- d) ENERGA SA's Management Board report on the activity of the ENERGA SA Capital Group in 2015,
together with recommendations for the Company's Supervisory Board,
- 8) familiarisation with the risk register and map prepared by the Management Board,
- 9) evaluation of the statutory auditor's independence, including an analysis of the representations made by the entity reviewing the financial statements,
- 10) evaluation of compliance of the Company's actions with the provisions of law and other regulations,
- 11) evaluation of the effectiveness of the system of management of risks exerting significant impact on the Company's operations, including its identification and mitigation methods,
- 12) review of the results of internal audit in the Company,
- 13) conducting the procedure to select an auditor to audit the financial statements and perform other assurance services for financial years 2015-2017,
- 14) tasks ordered by the Supervisory Board.

The Audit Committee, at its meetings, regularly met with representatives of the Company's auditor, and the Company's management and employees, and obtained all material information and explanations to fully understand the issues raised.

All recommendations, observations and comments and findings following from an analysis of the matters examined by the Audit Committee were communicated to the Company's Supervisory Board and Management Board. They pertained, among other things, to harmonization of the risk management and internal audit area in the Group.

The Audit Committee monitored the way in which its observations addressed to the Management Board were used. The recommendations and other findings of the Audit Committee were executed by the Company by the required deadlines.

In addition, the Audit Committee prepared and submitted to the Supervisory Board reports on its activity, comprising detailed information on the tasks performed and arrangements made.

Date of the report: 8 May 2017

Audit Committee Members' signatures:

CHAIRMAN	Marek Szczepaniec
MEMBER	Andrzej Powalowski
MEMBER	Zbigniew Wtulich