



Energa

**REPORT OF THE ENERGA SPÓŁKA AKCYJNA
SUPERVISORY BOARD ON THE EXECUTION
OF INVESTMENT TASKS BY THE COMPANY'S
MANAGEMENT BOARD
IN 2016**

Warsaw, May 2017

1. General information

In 2016, within the framework of its oversight over the Company's activity, the ENERGA SA Supervisory Board discussed, on a quarterly basis, the progress in the execution of investment tasks by the Company's Management Board, including material projects in the ENERGA Capital Group (hereinafter: ENERGA Group). At the same time, the level of capital expenditures for investment projects was an element of analysis of the Company's economic and financial analysis for each month.

Additionally, pursuant to § 17 sec. 2 item 3 of the Company's Articles of Association, the Management Board provided the Supervisory Board with information on the execution of investment undertakings in 2016 pertaining to or associated with a generating entity or co-generating entity with a value in excess of EUR 50 million or a distribution network with a value in excess of EUR 5 million.

Execution of specified investment tasks or their stages is one of the elements of evaluation of work of Management Board Members in 2016, and a condition for awarding them the annual bonus.

2. ENERGA Group's investment plans

The key document setting out the directions for ENERGA Group's investments in the medium and long term is the Long-Term Plan of Strategic Investments (hereinafter: WPIS). The first edition of this document covered investment plans for 2012-2020 (adopted by Resolution No. 63/III/2012 adopted by the ENERGA SA Management Board on 30 July 2012, on which the Company's Supervisory Board issued a positive opinion in Resolution No. 88/III/2012 of 14 September 2012).

The Long-Term Plan of Strategic Investments for 2014-2022 (approved by the ENERGA SA Supervisory Board by Resolution No. 64/IV/2014 of 6 November 2014, correlated with ENERGA Group's Long-Term Financial Model) that was in place in 2016, provided for total expenditures towards ENERGA Group's basic and additional growth investments in the amount of PLN 18.2 billion, where the total value of basic investments was PLN 11.8 billion, with the largest portion assigned to the Distribution Segment.

Given the evolving regulatory and business environment, the ENERGA SA Management Board took action to update the Group's development directions. On 8 November 2016 the Management Board of ENERGA SA adopted two documents of strategic importance for the operation of the ENERGA Group, i.e. the Strategy of the ENERGA Group for 2016-2025 and the Long-Term Plan of Strategic Investments of the ENERGA Group for 2016-2025. On 15 November 2016, both documents were approved by the ENERGA SA Supervisory Board, which was noted in Current Report no. 40/2016, thus setting out the new directions of ENERGA Group's development in the coming decade.

3. Execution of key investments in 2016

The total consolidated expenditures made by the ENERGA Group in 2016 amounted to PLN 1.6 billion. Financial progress of the plan was determined to be 95.7%. Most of the investments were made in the Distribution Segment.

Investments in distribution assets amounted to roughly PLN 1.3 billion. The main stream of capital expenditures (PLN 562 million) was designated for the modernization of the distribution network to improve reliability of electricity supply (about 44.5% of expenditures in the Distribution Segment), network expansion in connection with the connection of new customers (PLN 476 million - about 37.7% of expenditures in the Distribution Segment), innovative technologies and network solutions (PLN 49 million - about 3.9% of expenditures in the Distribution Segment), network expansion in connection with the flows in the HV network and connection of new sources (PLN 31 million - about 2.5% of expenditures in the Distribution Segment) and other investments (PLN 145.1 million - about 11.5% of expenditures in the Distribution Segment). As a result of these capital expenditures, more than 33 thousand new customers were connected, approximately 4.5 thousand km of high, medium and low voltage power lines were built and modernized and nearly 2.3 thousand of new renewable energy sources *(including about 2.2 thousand micro-installations) were connected to the grid.

The ENERGA Group spent almost PLN 0.25 billion on capital expenditures in the power generation area. The most important ones include:

- 1) continuation of investments to adapt the Ostrołęka B Power Plant to the stricter environmental standards following from the coming into force, from 1 January 2016, of the IED Directive, which introduced more strict emission standards for nitrogen oxides (NOx), sulphur oxides (SOx) and dust. The total expenditures towards those installations in 2016 amounted to PLN 95.6 million (about 38.5% of total expenditures in the Generation Segment),
- 2) execution of replacement investments at the Ostrołęka B Power Plant – expenditures made in 2016 amounted to PLN 85.5 million (about 34.4% of total expenditures in the Generation Segment),
- 3) construction of the Parsówek Wind Farm was completed – the expenditures in 2016 amounted to PLN 19 million (about 7.6% of total expenditures in the Generation Segment).

The total capital expenditures in the Sales Segment reached PLN 92.2 million, mainly in the area of lighting and related to the implementation of an integrated sales support system.

4. Evaluation of investment tasks executed by the ENERGA SA Management Board

The Supervisory Board hereby issues a positive opinion on the progress of the execution of investment tasks and effectiveness of expenditures made in 2016. The investments completed in the ENERGA Group in 2016 related to the main areas of activity, which constituted the main source of revenues of the Company and the ENERGA Group. Accordingly, they will materially affect the creation of ENERGA Group's value for shareholders.

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