



***Report of the Supervisory Board of ENEA S.A.
on its operations in 2017***

Poznań, 23 May 2018

1. Information on the term of office of the Supervisory Board and its activity in the following year of its term.

In 2017, the Supervisory Board of ENEA S.A. operated as the Supervisory Board of the 9th term.

2. Composition of the Supervisory Board, positions held, changes in the Supervisory Board's composition during the financial year.

As at 01.01.2017, the Supervisory Board of the Company of the 9th term operated in the following composition:

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| 1. Małgorzata Niezgoda | - Chairwoman of the Supervisory Board, |
| 2. Piotr Kossak* | - Vice-Chairman of the Supervisory Board, |
| 3. Rafał Szymański | - Secretary of the Supervisory Board, |
| 4. Rafał Bargiel | - Member of the Supervisory Board, |
| 5. Sławomir Brzeziński | - Member of the Supervisory Board, |
| 6. Wojciech Klimowicz | - Member of the Supervisory Board, |
| 7. Tadeusz Mikłosz | - Member of the Supervisory Board, |
| 8. Piotr Mirkowski | - Member of the Supervisory Board, |
| 9. Paweł Skopiński | - Member of the Supervisory Board, |
| 10. Roman Stryjski | - Member of the Supervisory Board. |

** Member of the Supervisory Board fulfilling the independence criterion referred to in § 22 item 7 of the Company's Statute and within the meaning of the corporate governance principles included in the set of the Best Practices of WSE Listed Companies 2016.*

In 2017 and 2018, the following changes in the composition of the Supervisory Board of ENEA S.A. took place:

- 1) on 27.12.2017, the Company received the resignation of Ms Małgorzata Niezgoda from the position of a Member of the Supervisory Board with effect on 27.12.2017,
- 2) on 28.12.2017, the Extraordinary General Meeting of ENEA S.A. appointed a new Member of the Supervisory Board - Mr Stanisław Hebda as the Chairman of the Supervisory Board,
- 3) on 13.03.2018, Paweł Skopiński resigned from the position of a Member of the Supervisory Board with effect on 13.03.2018,
- 4) on 22.03.2018, the Company received a statement from the Minister of Energy on appointment of Mr Ireneusz Kulka as Member of the Supervisory Board pursuant to § 24 (1) of the Company's Statute,
- 5) on 16.04.2018 the Management Board of ENEA S.A. learned about a statement dated on 13.04.2018 by the Minister of Energy regarding the dismissal of a Member of the Supervisory Board of the Company in accordance with the right under § 24 (1) of the Company's Statute. In accordance with the aforementioned right, on 15.04.2018 Mr Ireneusz Kulka was dismissed from the Supervisory Board of the Company.
- 6) on 16.04.2018, the Extraordinary General Meeting of ENEA S.A.:
 - a) dismissed Mr Rafał Bargiel and Mr Piotr Kossak from the Supervisory Board of ENEA S.A.,
 - b) appointed Mr Ireneusz Kulka and Mr Paweł Jabłoński to the Company's Supervisory Board, whereas the resolution regarding the appointment of Mr Paweł Jabłoński came into force upon its adoption with effect from the day the candidate obtained a positive opinion of the Council for companies with shares owned by the State Treasury and state legal persons, i.e. from 20.04.2018.

As at the date of publication of this Report the Company's Supervisory Board is composed of nine members and operates in the following composition:

1. Stanisław Hebda - Chairman of the Supervisory Board,
2. Paweł Jabłoński - Vice-Chairman of the Supervisory Board,
3. Rafał Szymański - Secretary of the Supervisory Board,
4. Sławomir Brzeziński - Member of the Supervisory Board,
5. Wojciech Klimowicz - Member of the Supervisory Board,
6. Ireneusz Kulka* - Member of the Supervisory Board,
7. Tadeusz Mikłosz - Member of the Supervisory Board,
8. Piotr Mirkowski** - Member of the Supervisory Board,
9. Roman Stryjski** - Member of the Supervisory Board.

* An independent member within the meaning of Article 129 (1) (3) of the Act of 11 May 2017 on statutory auditors, auditing firms and public supervision

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3. Operations of the Supervisory Board of ENEA S.A.

In 2017, the Supervisory Board of the 9th term held 11 meetings and adopted 84 Resolutions (including 17 Resolutions through electronic mail voting pursuant to § 6 item 6 of the Rules of the Supervisory Board of ENEA S.A.).

The supervisory and control activities of the Supervisory Board in 2017 financial year related to, among others, the following issues:

1) Appointment of a certified auditor to audit the financial statements:

On 19.12.2017, the Supervisory Board appointed PricewaterhouseCoopers sp. z o.o. as a certified auditor for ENEA S.A. for 2018-2020.

2) Approval of annual material and financial plans:

The Material and Financial Plan of ENEA S.A. for 2017 and the Material and Financial Plan of ENEA Capital Group for 2017 were approved by the Supervisory Board on 17.01.2017.

On 29 June 2017, the Supervisory Board approved the Corrected Property and Financial Plan of the ENEA Capital Group for 2017.

3) Issuing opinions on all matters submitted by the Management Board to the General Meeting of Shareholders for consideration:

a) On 20.04.2017, the Supervisory Board issued a positive opinion on:

- Non-consolidated financial statements of ENEA S.A. for the financial year ended on 31 December 2016,
- Report of the Management Board on the operations of ENEA S.A. and ENEA Capital Group in 2016,
- Consolidated financial statements of ENEA Capital Group for the financial year ended on 31 December 2016,

b) On 20.04.2017, the Supervisory Board issued a positive opinion on the motion of the Management Board relating to the distribution of net profit for the period from 1 January 2016 to 31 December 2016 in the amount of PLN 620,243 thou. (six hundred twenty million two hundred forty three thousand zloty) in the following way:

- distribution of dividend to shareholders - PLN 110,360,644.50 at around 17.8% of net profit,
- increase of reserve capitals allocated to investment financing – PLN 509,882,355.50.

- c) On 20.04.2017, the Supervisory Board issued a positive opinion and recommended to the Ordinary General Meeting granting:
- the President of the ENEA S.A. Management Board, Mirosław Kowalik, a discharge from liability for the performance of his duties for the period from 07.01.2016 to 31.12.2016,
 - the Member of the ENEA S.A. Management Board, Mikołaj Franzkowiak, a discharge from liability for the performance of his duties for the period from 15.02.2016 to 31.12.2016,
 - the Member of the ENEA S.A. Management Board, Piotr Adamczak, a discharge from liability for the performance of his duties for the period from 15.02.2016 to 31.12.2016,
 - the delegated to act as the President of the Management Board of the Company, the Member of the Supervisory Board of ENEA S.A., Wiesław Piosik, a discharge from liability for the performance of his duties for the period from 01.01.2016 to 07.01.2016,
 - the Member of the ENEA S.A. Management Board, Wiesław Piosik, a discharge from liability for the performance of his duties for the period from 07.01.2016 to 31.12.2016,
 - the delegated to act as the Member of the Management Board, the Member of the Supervisory Board of ENEA S.A., Sławomir Brzeziński, a discharge from liability for the performance of his duties for the period from 07.01.2016 to 15.02.2016,
 - the Member of the ENEA S.A. Management Board, Dalida Gepfert, a discharge from liability for the performance of her duties for the period from 01.01.2016 to 07.01.2016,
 - the Member of the ENEA S.A. Management Board, Grzegorz Kinelski, a discharge from liability for the performance of his duties for the period from 01.01.2016 to 07.01.2016,

4) Approval of the Company's Corporate Organisational Rules:

On 14.07.2017, the Supervisory Board approved the amendments to the Corporate Organisational Rules of ENEA S.A.

5) Granting approvals to the Management Board:

In 2017, the Supervisory Board granted approvals to the Company's Management Board to conduct the following actions:

- a) ENEA S.A.'s performance of activities in the project regarding the acquisition of EDF assets,
- b) purchase of shares in Polimex-Mostostal S.A. with the conclusion of relevant agreements,
- c) joining the Polska Grupa Górnicza spółka z o.o. and taking up shares in the amount of PLN 300,000,000.00 in the increased capital together with the conclusion of the Investment Agreement and the Investor Memorandum of Understanding,
- d) incurring of liabilities resulting from concluding transactions specified in the Strategy of Interest Rate Risk Hedging in 2017,
- e) the terms and conditions of civil liability insurance contracts for Members of the Management Board of ENEA S.A.,
- f) conclusion by ENEA S.A. of a cash donation contract in the amount of PLN 1,000,000 and PLN 200,000 for the account of ENEA Foundation,
- g) conclusion of an Annex No. 4 to the Shareholder Agreement CRUn/ZAM/DR RR/33/4299/2014 concluded on 3 September 2014 between ENEA S.A., PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and Tauron Polska Energia S.A.

6) Granting approval to Members of the Management Board to sit in the governing bodies of other companies, associations and foundations:

In 2017, the Supervisory Board issued approvals to:

- a) the President of the ENEA S.A. Management Board, Mirosław Kowalik, to hold the position of Member of the Supervisory Board of ENEA Operator sp. z o.o. and his appointment to the Council of Employers of the Republic of Poland,
- b) Member of the Management Board of ENEA S.A. for Financial Affairs, Mr Mikołaj Franzkowiak, to hold the position of a Member of the Supervisory Board of ENGIE Energia Polska S.A.,
- c) Member of the Management Board of ENEA S.A. for Financial Affairs, Mr Piotr Olejniczak, to hold the position of a Member of the Supervisory Board of ENEA Elektrownia Połaniec S.A. and the position of a Member of the Supervisory Board of ENEA Innovation sp. z o.o.,
- d) Member of the Management Board of ENEA S.A. for Commercial Affairs, Mr Piotr Adamczak, to hold the position of a Member of the Supervisory Board of ENEA Innovation sp. z o.o. and to hold the position of the Chairman of the Board of the ENEA Foundation.

Additionally, the Supervisory Board conducted the following activities:

1. it verified the independence of the members of the Audit Committee in order to adjust the composition of the Audit Committee to the requirements of the Act of 11 May 2017 on statutory auditors, auditing firms and public supervision,
2. it adopted a resolution on the amendment to the Regulations of the Supervisory Board of ENEA S.A., e.g. in order to adapt its provisions to the requirements of the Act of 11 May 2017 on statutory auditors, auditing firms and public supervision,
3. it adopted a resolution on shaping the remuneration of the Members of the Management Board of ENEA S.A.,
4. it made a decision regarding the conclusion of agreements with the Members of the Management Board of ENEA S.A. for the provision of management services containing non-competition clauses applicable after the termination of their functions and annexes to these agreements,
5. it delegated a member of the Supervisory Board of ENEA S.A. to temporarily perform the duties of a Member of the Management Board of ENEA S.A. for Corporate Affairs,
6. conducted the qualification procedures for the positions of: a Member of the Management Board of ENEA S.A. for Financial Affairs and a Member of the Management Board of ENEA S.A. for Corporate Affairs,
7. it expressed opinions on proposed amendments to the Statute of ENEA S.A.,
8. it established a uniform text of to the Statute of ENEA S.A.,
9. it appointed members of the ENEA S.A. Supervisory Board's Audit Committee and a member of the Supervisory Board of ENEA S.A.'s Nominations and Remuneration Committee,
10. it approved Management Goals (KPIs) for Members of the Management Board of ENEA S.A. for 2017,
11. it confirmed the implementation of KPIs of Members of the Management Board of ENEA S.A. for the financial year 2016,
12. adopted the Report of the Supervisory Board of ENEA S.A. for the financial year of 2016 and decided to submit it to the Ordinary General Meeting of Shareholders of the Company,
13. acquainted itself with the Report of the Audit Committee of ENEA S.A. Supervisory Board on operations in 2016 and H1 2017,
14. issued a positive opinion on the implementation of the promotion plan within sponsoring and CSR activities in ENEA Group in 2016,
15. it expressed the opinion on the proposal to change additional Management Goals for the Members of the Management Board of ENEA S.A. for 2017,
16. issued a positive opinion on the implementation of ENEA Group's Promotion Plan for 2018,
17. approved the Annual Audit Plan for 2018 for ENEA Group and Budget of the Audit Management Department for 2018.
18. it determined the manner of exercising the right to vote at the Extraordinary General Meeting of Shareholders of ENEA Wytwarzanie sp. z o.o. regarding the consent to the sale of an organized part of the enterprise,

19. it adopted a resolution on amendments to the Regulations for the election and dismissal of Members of the Supervisory Board of ENEA S.A. chosen by employees.

The Supervisory Board received and reviewed the following information from the Management Board, in particular on matters concerning:

1. the status of the project regarding the purchase of shares in Polimex-Mostostal S.A.,
2. the financial possibilities of the ENEA Capital Group given the conducted and planned strategic projects,
3. donations in the ENEA Capital Group,
4. the increase in coal transport costs from LW "Bogdanka" S.A. to ENEA Wytwarzanie sp. z o.o. as a result of PKP PLK S.A.'s modernization of railway line No. 7,
5. the activities in the area of innovation, including the status of issues related to electromobility,
6. the assessment of the internal control system at ENEA S.A., provided by the Audit Committee,
7. the implementation of the principles set out in the Act on the management of state property regarding subsidiaries,
8. the completion of the acquisition of the Połaniec Power Plant,
9. the investment projects, in particular RES, analysed by the ENEA Capital Group along with information on the implementation stage and the power of the projects concerned,
10. the "Employee satisfaction survey card" project,
11. the settlement of union costs in ENEA S.A.,
12. the granting of a garden leave with retained right to remuneration to the employees of the ENEA Group for the time of performing duties as a result of appointment to the Supervisory Board of ENEA S.A. and subsidiaries,
13. the granting of a garden leave to employees selected/appointed by trade union organizations to Supervisory Boards of companies of the ENEA Capital Group,
14. the decision on launching procurement procedures regarding:
 - the selection of a media house,
 - the selection of a sponsoring marketing agency,
 - the selection of an agency supporting ENEA S.A. in the area of ATL and BTL,
 - the selection of an agency supporting ENEA S.A. in event activities,
 - the delivery of promotional materials for ENEA Group,
15. the regulations applicable to ENEA Group as regards sending employees to national and international trainings / conferences,
16. trainings, which were taken, in connection with the performed function, by members of the Supervisory Board of ENEA S.A. and subsidiaries in the last 5 years (along with information on costs thereof),
17. the number of people delegated to work in trade unions and social labour inspectorates together with an indication of existing regulations on this subject as well as costs and average remuneration,
18. current operations of ENEA Foundation,
19. recommendations of the Supervisory Board of 20.04.2017 and 24.08.2017 regarding Human Resource Management,
20. mandate contracts the impersonal fund in the area of innovation and development,
21. recommendations from the meeting of the Supervisory Board of ENEA S.A. dated 24.08.2017 (regarding the purchase of biomass and so-called combustion by-products),
22. regulations regarding the training of Management Board and Supervisory Board members in subsidiaries of ENEA Capital Group,

23. reports and conclusions after the meeting with the President of the Energy Regulatory Office regarding the situation regarding SAIDI and SAIFI indicators in the context of the effects of the August tornado and additionally the proposal to change SAIDI and SAIFI calculation rules for KPIs of Members of the ENEA S.A. Management Board and ENEA Operator sp. z o.o.,
24. the number of company cars and operating costs in individual ENEA Group companies,
25. submission of the last report regarding the construction of Unit No. 11,
26. cooperation with PSE S.A. in the context of the construction / commissioning of Unit No. 11,
27. the property insurance of ENEA Elektrownia Połaniec held by the Company.

At its meetings, the Supervisory Board reviewed up-to-date information concerning:

- economic and financial results of the Company and ENEA Capital Group,
- realisation of the project entitled, "Construction of bituminous coal fired supercritical 1,075 MWe gross power unit" realised by ENEA Wytwarzanie S.A.,
- personal composition of the bodies of ENEA S.A.'s subsidiaries,
- the process of longer-term contract renegotiation for the purchase of RES proprietary interests,
- the costs of the Management Board and the Supervisory Board of ENEA S.A. and the advisory costs in the Company,
- the costs of Management Boards, Supervisory Boards and advisory costs in ENEA Capital Group companies.

The activities of the Supervisory Board of ENEA S.A. were documented in the minutes of the meetings of the Board in 2017.

4. Appointments, dismissals and suspensions of members of the Management Board by the Supervisory Board and delegating members of the Supervisory Board to perform the functions of Management Board members.

1. On 24.08.2017, the Supervisory Board of the Company adopted resolutions on dismissal from the composition of the Management Board of the Company of the following persons:
 - Mr Wiesław Piosik - Member of the Management Board for Corporate Affairs,
 - Mr Mikołaj Franzkowiak - Member of the Management Board for Financial Affairs,
2. On 24.08.2017, the Supervisory Board of the Company delegated Mr Rafał Szymański, a Member of the Supervisory Board, to temporarily perform the duties of a Member of the Management Board of ENEA S.A. for Corporate Affairs for a period not exceeding three months until the appointment of a new Member of the Board of ENEA S.A. for Corporate Affairs,
3. On 22.09.2017, the Supervisory Board of the Company adopted a resolution to appoint, with effect from 1.10.2017, Mr Piotr Olejniczak to the position of Member of the Management Board of ENEA S.A. for Financial Affairs,
4. On 05.10.2017, the Supervisory Board of the Company adopted a resolution to appoint, with effect from 10.10.2017, Mr Zbigniew Piętka to the position of Member of the Management Board ENEA S.A. for Corporate Affairs.

5. Committees of the Supervisory Board of ENEA S.A.

Activities of the Supervisory Board were supported by Committees acting as collective advisory and opinion-giving bodies of the Supervisory Board, appointed from among members of the Supervisory Board. In 2017, there were two permanent Committees of the Supervisory Board:

- Audit Committee,
- Nominations and Remuneration Committee.

a) Audit Committee of the Supervisory Board of ENEA S.A.

From the beginning of 2017, the Audit Committee of the Supervisory Board of the Company of the 9th term operated in the following composition:

1. Małgorzata Niezgoda - Chairwoman,
2. Piotr Kossak* - Member,
3. Sławomir Brzeziński - Member,
4. Wojciech Klimowicz - Member,
5. Paweł Skopiński - Member,
6. Roman Stryjski - Member.

**Member of the Supervisory Board fulfilling the independence criterion referred to in § 22 item 7 of the Company's Statute.*

During 2017 the following changes were made to the composition of the Audit Committee:

1. On 12.10.2017:

- Ms Małgorzata Niezgoda resigned from the position of the Chairwoman of the Audit Committee,
- The Audit Committee appointed Mr Piotr Kossak to hold the function of the Chairman of the Audit Committee,
- Mr Paweł Skopiński resigned from membership in the Audit Committee,
- The Supervisory Board of ENEA S.A. appointed the following members of the Audit Committee: Mr Piotr Mirkowski and Mr Rafał Bargiel,

2. On 27.12.2017, Ms Małgorzata Niezgoda submitted her resignation from the position of a member of the Supervisory Board and thus from her membership in the Audit Committee.

Given the above, as at 31.12.2017, the composition of the Audit Committee of the Supervisory Board of the ninth term of office was as follows:

1. Piotr Kossak* - Chairman,
2. Rafał Bargiel** - Member,
3. Sławomir Brzeziński - Member,
4. Wojciech Klimowicz - Member,
5. Piotr Mirkowski** - Member,
6. Roman Stryjski** - Member.

** An independent member within the meaning of Article 129 (1) (3) of the Act of 11 May 2017 on statutory auditors, auditing firms and public supervision and within the meaning of the corporate governance principles included in the set of the Best Practices of WSE Listed Companies 2016.*

*** An independent member within the meaning of Article 129 (1) (3) of the Act of 11 May 2017 on statutory auditors, auditing firms and public supervision*

On 25.01.2018, the Supervisory Board of ENEA S.A. appointed to the Audit Committee of the Supervisory Board of ENEA S.A. Mr Stanisław Hebda, who was appointed to the Supervisory Board of ENEA S.A. by virtue of resolution of the Extraordinary General Meeting of ENEA S.A. dated 28.12.2017,

On 16.04.2018, the Extraordinary General Meeting of ENEA S.A. dismissed from the Supervisory Board of ENEA S.A. Mr Rafał Bargiel and Mr Piotr Kossak,

On 17.05.2018, the Supervisory Board of ENEA S.A. appointed to the Audit Committee of the Supervisory Board of ENEA S.A. Mr Ireneusz Kulka, who was appointed to the Supervisory Board of ENEA S.A. by virtue of the resolution of the Extraordinary General Meeting of ENEA S.A. of 16.04.2018. The selection was preceded by the verification of compliance by the Members of the Supervisory Board of ENEA S.A. of the independence criteria specified in the Act on statutory auditors, auditing firms and public supervision as well as in the set of the Best Practices of WSE Listed Companies 2016.

At the same time, on 17.05.2018, Mr Stanisław Hebda resigned from the position of a Member of the Audit Committee.

Taking into account the aforementioned changes, the composition of the Audit Committee as at the date of this Report was as follows:

1. Ireneusz Kulka* - Chairman,
2. Sławomir Brzeziński - Member,
3. Wojciech Klimowicz - Member,
4. Piotr Mirkowski** - Member,
5. Roman Stryjski** - Member.

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The Audit Committee is each time composed of a member of the Committee with knowledge and skills in accounting or auditing, and a member of the Committee with knowledge and skills in the field in which ENEA S.A. operates.

In 2017 the Audit Committee held 7 meetings and adopted 15 Resolutions (including 6 Resolutions through electronic mail voting pursuant to § 7 item 9 and § 6 item 6 of the Rules of the Supervisory Board of ENEA S.A.) relating to:

1. a positive assessment of the audit methods of the financial statements of ENEA S.A. and the ENEA Capital Group for the financial year ended 31.12. 2016 and the methods of review of the Condensed Interim Financial Statements of ENEA S.A. and the ENEA Capital Group for the period from 01.01.2017 to 30.06.2017,
2. approval of the service of development of the private investor test by an entity related to the auditor of the financial statements of ENEA S.A.,
3. approval of the provision of advisory services as part of the acquisition project by an entity related to the auditor of the financial statements of ENEA S.A.,
4. Adoption of the report from the general audit of the assessment of the internal control system in ENEA S.A. the purpose of accepting and transferring to the Supervisory Board of ENEA S.A. of the management information on the overall assessment of the internal control system at ENEA S.A. included in this Report,
5. approval of consulting services in the scope of implementing new IFRS 15 and 16 by an entity related to the auditor of the financial statements of ENEA S.A.,
6. acceptance and submission to the Supervisory Board of ENEA S.A. of *Report of the Audit Committee of the Supervisory Board of ENEA S.A. on its operations in 2016*,
7. acceptance and submission to the Supervisory Board of ENEA S.A. of *Report of the Audit Committee of the Supervisory Board of ENEA S.A. on its operations in H1 2017*,
8. positive opinion on the Annual Audit and Internal Control Plan for 2018 for the ENEA Capital Group and the Budget of the Audit Management Division for 2018 and submission of the above documents together with the opinion to the Supervisory Board of ENEA S.A. for approval,
9. election of the Chairman of the Audit Committee of the Supervisory Board of ENEA S.A.,
10. approval of documents: "I. The policy of selecting an audit firm to conduct the audit of ENEA S.A. II. The policy of the provision of permitted services that are not audited by an audit firm. III. The procedure for selecting an audit firm" and subsequent amendments to the aforementioned documents,
11. approval of the minutes from the proceedings for the selection of an audit firm for ENEA S.A. and subsidiaries of the ENEA Capital Group for 2018-2020, issuing recommendations, approving the provision of permitted non-audited services and submitting the approved minutes along with

recommendation to the Supervisory Board of ENEA S.A. for the needs of the Supervisory Board of ENEA S.A.'s decision on the selection of an audit firm.

The Audit Committee reviewed the information from the Management Board relating in particular to:

1. the draft financial statements of ENEA S.A. and the ENEA Capital Group for the financial year ended 31 December 2016 and the Management Board's report on the operations of ENEA S.A. and the ENEA Capital Group in 2016 for the purpose of consultations,
2. the report on the activity of internal audit in the ENEA Group for 2016,
3. the report on in-depth analysis in the area of management of training activities at ENEA Operator sp. o.o. in 2013-2016 in occupational health and safety trainings and trainings on work with voltage,
4. the final audit report in the area of implementation of connection agreements in the field of the 4th and 5th connection group in terms of obligations resulting from the quality tariff,
5. final report on risk management area in ENEA Group,
6. final report on the audit of verification of the costs of trade union activities in the ENEA CG and final report on the audit of verification of compliance with the budget of the regulation(s) of the social benefits fund in the provision of benefits in 2015-2016,
7. the policy and procedures for the selection of the audit firm and the policy of providing non-audit services,
8. the reports on the internal audit activity in the ENEA Group for H1 2017,
9. the final report on the audit of the correct functioning of the sales, service and billing model in the partner channel at the ENEA CG,
10. the final audit report regarding the management of the Sowlany Combustion By-products landfill site,
11. the final report on the audit of warehouse management with elements of measurement systems,
12. the performance of the implementation schedule of recommendations from the in-depth audit in the area of management of training activities at ENEA Operator sp. z o.o. in 2013-2016 as regards trainings on occupational health and safety and work with voltage,
13. the final report from the audit entitled "Verification of the provisions of a contingent sales agreement with ENGIE ENERGIA Polska S.A. dated 23.12.16 regarding seller's representations & warranties and indemnities",
14. the final report on the audit of the customer service process, including customer complaints regarding distribution services.

In 2017, the Audit Committee of the Supervisory Board of ENEA S.A. also held a meeting with representatives of the external auditor - KPMG Audyty sp. z o.o., during which the following issues were discussed

- the status of implementation of the reform of the audit market in Poland, effective from 1 January 2017,
- the methods of auditing financial statements of ENEA S.A. and the ENEA Capital Group S.A. for the financial year ended 31.12.2016 and methods of reviewing of condensed interim financial statements of ENEA S.A. and the ENEA Capital Group for the period from 1.01.2017 to 30.06.2017.

In addition, on 12 April 2018, pursuant to the Act on auditors, audit firms and public supervision, the Audit Committee accepted information for the Supervisory Board on the results of the audit of the financial statements of ENEA S.A. and the ENEA Capital Group for the financial year ended 31.12.2017, in which it reported the results of the audit, explained how the audit contributed to the reliability of financial reporting in the Company and defined the role of the Audit Committee in the audit process.

b) Nominations and Remuneration Committee of the Supervisory Board of ENEA S.A.

From the beginning of 2017, the Nominations and Remuneration Committee of the 9th term operated in the following composition:

1. Rafał Szymański - Chairman of the Committee,
2. Piotr Kossak* - Member of the Committee,
3. Rafał Bargiel - Member of the Committee,
4. Tadeusz Mikłosz - Member of the Committee,
5. Piotr Mirkowski - Member of the Committee.

** An independent member within the meaning of Article 129 (1) (3) of the Act of 11 May 2017 on statutory auditors, auditing firms and public supervision and within the meaning of the corporate governance principles included in the set of the Best Practices of WSE Listed Companies 2016.*

In 2017, the following changes were made to the composition of the Nominations and Remuneration Committee:

- on 22.11.2017, the Supervisory Board appointed Paweł Skopiński into the composition of the Nominations and Remuneration Committee.

Therefore, as of 31.12.2017 the Nominations and Remuneration Committee of the Company's Supervisory Board of the 9th term was composed of the following members:

1. Rafał Szymański - Chairman of the Committee,
2. Piotr Kossak* - Member of the Committee,
3. Rafał Bargiel - Member of the Committee,
4. Tadeusz Mikłosz - Member of the Committee,
5. Piotr Mirkowski - Member of the Committee,
6. Paweł Skopiński - Member of the Committee.

** An independent member within the meaning of Article 129 (1) (3) of the Act of 11 May 2017 on statutory auditors, auditing firms and public supervision and within the meaning of the corporate governance principles included in the set of the Best Practices of WSE Listed Companies 2016.*

On 13.03.2018, Mr Paweł Skopiński resigned from the position of a Member of the Supervisory Board and thus from membership in the Nomination and Remuneration Committee.

On 16.04.2018, the Extraordinary General Meeting of ENEA S.A. dismissed from the Supervisory Board of ENEA S.A. Mr Rafał Bargiel and Mr Piotr Kossak.

On 17.05.2018 the Supervisory Board of ENEA S.A. appointed into the composition of the Nominations and Remuneration Committee Mr Stanisław Hebda and Mr Paweł Jabłoński appointed to the Supervisory Board of ENEA S.A. by virtue of resolution of the Extraordinary General Meeting of ENEA S.A. of 16.04.2018.

Taking into account the aforementioned changes, the composition of the Audit Committee as at the date of this Report was as follows:

1. Rafał Szymański - Chairman of the Committee,
2. Stanisław Hebda - Member of the Committee,
3. Paweł Jabłoński - Member of the Committee,
4. Tadeusz Mikłosz - Member of the Committee,
5. Piotr Mirkowski* - Member of the Committee.

** An independent member within the meaning of Article 129 (1) (3) of the Act of 11 May 2017 on statutory auditors, auditing firms and public supervision and within the meaning of the corporate governance principles included in the set of the Best Practices of WSE Listed Companies 2016.*

In 2017 the Audit Committee held 6 meetings and adopted 19 Resolutions (including 1 Resolution through electronic mail voting pursuant to § 7 item 9 and § 6 item 6 of the Rules of the Supervisory Board of ENEA S.A.) relating to: The subject matter of the meetings of the Committee was mainly drafting a recommendation for the Supervisory Board regarding:

1. adopting a resolution on shaping the remuneration of the Members of the Management Board of ENEA S.A.,
2. concluding contracts for the provision of management services containing non-competition clauses applicable after the termination of the functions and annexes to these agreements with the Members of the Management Board of ENEA S.A.,
3. approving Management Goals (KPI) for the Members of the Management Board of ENEA S.A. for 2017,
4. confirmation of the realisation of ENEA S.A.'s Members of the Management Board KPI ratios for 2016 financial year,
5. granting consent to the Members of ENEA S.A.'s Management Board to hold the position of a Member of the Supervisory Board in ENEA Group companies,
6. proposals to change additional Management Goals for the members of the ENEA S.A.'s Management Board for 2017.

6. Self-assessment of the Supervisory Board's operations.

In the opinion of the Supervisory Board, in 2017 the Company's Supervisory Board fulfilled its statutory obligations concerning permanent supervision over the activity of the Company and the Capital Group in all business aspects in a reliable and efficient way. The Supervisory Board was composed of people with various competences and experience. The implementation of the statutory requirement that at least one member of the Supervisory Board should be an independent member in the meaning of the corporate governance principles included in the set of the Best Practices of WSE Listed Companies 2016 was ensured. Several Members of the Supervisory Board are independent members within the meaning of Article 129 (1) (3) of the Act of 11 May 2017 on statutory auditors, auditing firms and public supervision.

The scope and mode of operation as well as the composition of the Supervisory Board complied with the Commercial Companies Code, the Company's Statute and the Rules of the Supervisory Board.

The scope of issues analysed by the Supervisory Board in 2017 was very broad, with a special focus put on the financial results generated by the Company and by the Capital Group as well as on implementation of the major investment projects.

In view of the foregoing, the Supervisory Board requests that the Company's General Meeting discharge its Members from the fulfilment of their duties in 2017.

7. Information relating to the assessment of "Non-consolidated financial statements of ENEA S.A. for the financial year ended on 31 December 2017", "Consolidated financial statements of ENEA Capital Group for the financial year ended on 31 December 2017", "Management Board's report on operations of ENEA S.A. in 2017", "Management Board's report on operations of ENEA Capital Group in 2017", and the motion of the Board regarding the proposal of distribution of net profit for the period from 01.01.2017 to 31.12.2017.

Acting pursuant to Article 382 § 3 of the Commercial Companies Code, the Supervisory Board made an assessment of statements and reports referred to in Article 395 § 2 item 1 and § 5, i.e.:

1. Report of the Management Board on the operations of ENEA S.A. and ENEA Capital Group in 2017;
2. non-consolidated financial statements of ENEA S.A. for the financial year ending on 31 December 2016 covering the documents audited by the certified auditor:
 - non-consolidated statement of financial position as at 31 December 2017 showing a balance sheet amount of assets and liabilities equal to PLN 22,452,921 thou. (twenty two billion four hundred fifty two million nine hundred twenty one thousand zloty);

- non-consolidated profit and loss statement and other comprehensive income for the period from 01.01.2017 to 31.12.2017 showing a net profit in the amount of PLN 1,813,324 thou. (one billion eight hundred thirteen million three hundred twenty four thousand zloty) with the comprehensive income totalling to PLN 1,801,859 thou. (one billion eight hundred one million eight hundred fifty nine thousand zloty);
 - non-consolidated statement of changes in equity demonstrating an increase in equity as at 31 December 2017 by PLN 1,691,498 thou. (one billion six hundred ninety one million four hundred ninety eight zloty);
 - non-consolidated cash flow statement demonstrating an increase in cash by PLN 131,604 thou. (one hundred thirty one million six hundred four thousand zloty);
 - notes to the non-consolidated financial statements covering a description of key applied rules of accounting and other explanatory notes;
3. Consolidated financial statements of ENEA Capital Group for the financial year ended on 31 December 2017 covering the documents audited by the certified auditor:
- consolidated statement of financial position as at 31 December 2017 showing a balance sheet amount of assets and liabilities equal to PLN 28,312,994 thou. (twenty eight billion three hundred twelve million and nine hundred ninety four thousand zloty);
 - consolidated profit and loss statement and other comprehensive income for the period from 01.01.2017 to 31.12.2017 showing a net profit in the amount of PLN 1,164,891 thou. (one billion one hundred sixty four million eight hundred ninety one thousand zloty) with the comprehensive income totalling to PLN 1,112,072 thou. (one billion one hundred twelve million seventy two thousand zloty);
 - consolidated statement of changes in equity for the financial year from 01.01.2017 to 31.12.2017 demonstrating an increase in equity by PLN 987,940 thou. (nine hundred eighty seven million nine hundred forty thousand zloty);
 - consolidated cash flow statement showing an increase in cash by PLN 346,909 thou. (three hundred forty six million and nine hundred nine thousand zloty);
 - notes to consolidated financial statement covering a description of key applied rules of accounting and other explanatory notes.

After having read the Opinion and Report on the audit conducted by the certified auditor, KPMG Audyt Sp. z o.o. Sp. k., and after a thorough examination of the aforementioned documents, the Supervisory Board concluded that the Non-consolidated financial statements of ENEA S.A. for the financial year ended on 31 December 2017, Report of the Management Board on operations of ENEA S.A. and ENEA Capital Group in 2017 and consolidated financial statements of ENEA S.A. and ENEA Capital Group for the financial year ended on 31 December 2017 are in conformity with the books of account and accounting records and documents and that they truly reflect the actual situation.

The Supervisory Board recommended to the Ordinary General Meeting of Shareholders of ENEA S.A. consideration and approval thereof.

The Supervisory Board issued a positive opinion on the motion of the Management Board relating to the distribution of net profit for the period from 1 January 2017 to 31 December 2017 in the amount of PLN 1,813,324 thou. (one billion eight hundred thirteen million three hundred twenty four thousand zloty) in the following way:

- 100% of the net profit, i.e. PLN 1,813,324 thou. to increase reserve capitals for the financing of investments.

8. Evaluation of the Company's situation including assessment of the internal control system and the risk management system, the compliance and internal audit function.

ENEA S.A. generated a positive net financial result in 2017 which totalled to PLN 1.813.324 thou. and was higher than the result generated in the previous year by PLN 1.193.081 thou. The main reason for this deviation were the tests for impairment, and thus the need to reverse some of the write-downs made in previous years regarding the value of shares in ENEA Wytwarzanie sp. z o.o. for the amount of PLN 879,770 thou. The net profitability ratio in 2017 was 32.2% (in 2016: 11.4%) and return on equity was 14.4% (in 2016: 5.7%).

In 2017, the total electricity sales to retail end-users amounted to 17.9 TWh and was 7.3% higher than sales made in the previous year. The number of end customers as at 31 December 2017 was approximately 2.4 million and it is on a level comparable to previous years.

In 2017, ENEA S.A. had the financial resources ensuring support for all ongoing expenses associated to the Company's operations. The balance of available funds allowed the flexible implementation of current liabilities.

The activities conducted by the Company in 2017 are reflected in the most important investment projects and initiatives conducted in particular areas, in which the Company operates:

Mining Area:

- obtaining new licences:
 - applying for a mining license in the area of Ostrów and K-6 and K-7,
- maintenance of the machine park - purchase and assembly of machines and equipment as well as periodic repairs, purchase and assembly of the belt conveyor and other ready devices,
- other development and replacement investments:
 - execution of 30.7 km of new excavations,
 - extension of the mining waste disposal facility,
 - replacement investments in the Coal Processing Plant, including modernization of steel structures and stone loading,
 - construction of a tower crane.

Generation Area:

- ENEA Wytwarzanie:
 - commissioning of a supercritical bituminous coal fired 1,075 MWe power unit,
 - commissioning of Unit No. 3 after modernization,
 - commissioning of Unit No. 8 after modernization,
 - commissioning of the SCR installation for units No. 4-8,
 - continuation of the SCR installation and modernisation of electrostatic precipitators for units No. 9 and 10 as part of the 2 x 500 MW units modernisation programme,
- ENEA Elektrownia Połaniec:
 - construction of a junction between SCR installation and the boiler for units No. 2, 3, 7.

Distribution Area:

- completion of the realisation of a range of investments on medium and high voltage related to the extension, automation and modernisation of the unit and power grids:
 - reconstruction of: GPZ Pakość, GPZ Kostrzyn, GPZ Jachcice,
 - construction of Nowogród Bobrzański – Żary Zakładowa HV overhead line,

- reconstruction of HV overhead lines: Górzycza – Słubice, Zielomyśl – Międzychód, Zielomyśl – Międzyrzecz, Glinki – Żelechowo, Dąbie – Morzyczyn, Krzęcin – Dolice, Śmigiel – Leszno Gronowo, Żukowice – Bytom Odrzański,
- improvement of the connection processes and reduction of the negative impact on the environment of the used power equipment,
- development of information tools supporting the grid management.

Trading Area:

1. Wholesale:

- development of methodology for analysing the effects of the proposed power market mechanism,
- enhancement of a model of long-term price paths for products listed on wholesale markets,
- conclusion of framework agreements enabling transactions with ENEA Elektrownia Połaniec (EEP) related to electricity, CO₂ allowances and reviews of property rights contract,
- adjustment to changes resulting from the increase of generation assets in the ENEA Group in the field of tool improvement and portfolio management methods and securing the position within the full added value chain,
- coordination of planning and contracting principles resulting from the expansion of the fuel portfolio,
- development of a fundamental model of long-term price paths for hard coal,
- integration of EEP activities in the structures of the ENEA CG - taking over the function of a Commercial and Technical Operator in communication with PSE S.A. after prior provision of access to the wholesale market,
- taking over the function of supplying EEP with fuels (coal, biomass, fuel oil),
- agreeing the terms and conditions for coal supply in 2018 for approx. 75% of the demand of ENEA Wytwarzanie and EEP,
- starting the cooperation with PGG S.A. in the field of management of coal slurries and flotoconcentrates,
- concluding a framework agreement with JSW S.A. as regards the management of coal slurry in power units of the Koźienice Power Plant,
- conclusion with JSW S.A. framework agreement for the supply of coal to ENEA Wytwarzanie - Koźienice Power Plant as the production source,
- development of a model for contracting electricity from RES for installations with installed capacities from 500 kW upwards once the obligation of purchasing energy by the obliged seller has ceased to exist, i.e. from 1 January 2018.

2. Retail Trade:

- implementation of the IT sales support system (SSS) supporting the forecasting and management of the purchase and sales portfolio,
- implementation of the product "ELECTRICITY + Family",
- implementation of the ENEA Smart product line in the scope of packages: security, protection, savings,
- launching the Customer Loyalty Programme (Purchase Zone),
- optimization of the partner sales model,
- optimization of sales of full lighting service,
- conducting an education and information campaign warning against dishonest energy sellers,
- promotional activities regarding the product offer, e-customer service centre, the shopping zone (e.g. "You win with ENEA", "A month of electricity for free"),

- conducting customer satisfaction and service quality surveys,
- receiving the "Nowe Impulsy 2017" award for the successful implementation of the Energy Plus concept - a new model of customer relations and market operations.

3. Customer Service:

- completion of the implementation of the first and second stage of the multi-channel Contact Centre platform, which translated into increased reliability / security of remote customer service channels,
- launch of new functionalities: online chat, customer satisfaction survey, soft debt recovery, welcome phone call, etc.,
- opening of the visualized Customer Service Centres in Chojnice, Międzychód, Dębno, Świebodzin, Sulęcín, CH Pestka in Poznań, in Września and Szczecin, at ul. Struga 15,
- opening a new Contact Centre location in Szczecin to increase the quality of customer service,
- implementation of a new organizational structure in the area of the Support Division and the Settlement Division,
- completion of the first stage of the development of electronic customer service as regards the launch of new service pages on the www.enea.pl website,
- selection of the contractor for the gas fuel billing system and execution of the contract with the supplier,
- as part of the Simple Customer Service initiative, implementation of the principles of written correspondence and new templates of letters in simple Polish for consistent and friendly communication with Clients and Offices,
- Establishment of a quality unit and creating a system of work on the completeness, correctness and timeliness of settlements. A 99% improvement in results was recorded in areas including agreements and billing of clients of the Great Receipt.

Additionally, the significant activities realised in 2017 supporting ENEA Capital Group's Strategy include e.g.:

- development of area strategy for the Mining Area,
- completion of the acquisition transaction of 100% of shares in ENGIE Energia Polska, which is the owner of Połaniec Power Plant, from ENGIE International Holdings B.V.,
- membership in the "Polish Electric Bus - a supply chain for electromobility" cluster aimed at cooperation for the development of e-mobility, in particular electric buses and components used to build them,
- ENEA Serwis sp. z o.o.'s winning of a tender announced by the Roads and Urban Transport Authority for the delivery and launch of the first municipal electric vehicle chargers in Szczecin,
- launching the latest and most modern Central Power Delivery which manages the high voltage network in north-western Poland,
- performance by ENEA S.A., Energa S.A. and Elektrownia Ostrołęka S.A. of an investment agreement relating to the implementation of the project being the preparation, construction and operation of a power unit fired with bituminous coal with 1,000 MW capacity in Ostrołęka (Ostrołęka C),

In accordance with the best market practices and the Corporate Governance Principles for Supervised Institutions, an audit of the internal control, risk management and compliance systems as well as the internal audit function were reviewed in ENEA S.A. The main purpose of the review was to assess the effectiveness of the aforementioned systems and the internal audit functions at the Company level based on the proven COSO I methodology and commonly accepted standards in the areas subject to the audit.

In the opinion of the Supervisory Board, activities undertaken at ENEA S.A. in 2017 contributed to the strengthening of the internal control, risk management, compliance and internal control systems.

In the Supervisory Board's opinion, the Company implemented mechanisms which represent the best practices in the internal control area.

In the area of internal control environment, what is worth mentioning are, among others, actions taken in order to organize the formal basis for the recruitment process at ENEA S.A.:

1. So far, the recruitment process was carried out in the Company using good practices. In 2017, work was carried out to update and standardize regulations in the field of recruitment. The implementation of the regulations in the Company is scheduled until the end of the 2Q2018, and then the transfer of the solutions adopted in ENEA S.A. to other Group Companies has been planned.
2. The costs of the recruitment process resulting from external services, i.e. the publication of recruitment advertisements on a chargeable portal, were subject to ongoing monitoring as part of the HR policy reporting method implemented in 2017.
3. The compliance of personal data protection mechanisms for candidates was verified in line with the requirements of the GDPR. Recommendations issued by an external consultant in 2017 are currently being implemented as part of the "GRDP Project" launched in the Company. It is assumed that the main works will be completed until the implementation of the Regulation into the legal system, i.e. in May 2018.

In the area of risk identification and assessment, attention was paid, among others, to the following issues:

1. Continuation in 2017 of the works connected to the ERM Process optimisation in ENEA Group, including ENEA S.A. The actions taken were also related to the integration of new members of the ENEA Group, i.e. Lubelski Węgiel BOGDANKA S.A. and ENEA Elektrownia Połaniec S.A. and implementation of the IT systems to manage credit risk as well as corporate risk;
2. Providing all organizational units in a given company with the possibility of reporting, in the corporate risk management system, proposals for new risks and operational events for already identified risks, this is:
 - a. risk materialization,
 - b. a significant increase in the likelihood of risk materialization,
 - c. the occurrence of an Incident,
 - d. exceeding the risk warning indicator,
 - e. exceeding the schedule or budget of mitigation measures;
3. Change of employees' attitudes and building awareness of the risk management process in order to develop a proactive attitude by clearly defining the division of roles and responsibilities in the corporate risk management process and holding regular meetings of employees of the Business Risk Management Office with the risk owners;
4. Continuation of the optimization of the risk reporting model in the ENEA Group by reporting risk registers for the management boards of individual ENEA Group companies and reporting changes and actions taken by the owners of the key risks of the Group to the ENEA Group's Risk Committee;
5. Optimization of the counterparties' evaluation process in the area of the credit risk management (application of interfaces obtaining data from external systems, automation of calculations);
6. Assessment of the risk related to the largest suppliers of services, goods and construction works for the ENEA Capital Group companies, including the introduction of mandatory mechanisms verifying the financial situation of these suppliers;
7. Development of a scoring model of the portfolio analysis based on the assessment of behavioural and demographic factors of ENEA S.A.'s clients.

As far as control mechanisms are concerned, attention was paid, among others, to the following issues:

1. Systematisation, as part of the corporate risk management process, of reviews of key risks on a monthly basis, and significant risks on a quarterly basis;

2. Ensuring a regular, quarterly review and update of Emergency Procedures related to the business continuity management;
3. Automating the corporate risk and credit risk management process by introducing IT systems that verify the progress of the risk assessment process;
4. Monitoring the dynamics occurring in the risk statuses and the ability to analyse trends in key risks by observing changes in the levels of warning indicators;
5. Introduction into the electricity and gas sales process of automatic control mechanisms allowing for the identification of potential clients being debtors in the KRD (Debtor National Register) base who should be each time also subject to an individual credit risk assessment;
6. Improvement of communication with the ENEA Group companies through the possibility of both direct access to current and complete management information on risk management in the ENEA Group companies, as well as generation of uniform reports at the ENEA Group level;
7. Testing of new methods of the credit risk measurement - more precisely: parallel application of alternative discriminant models;
8. Ensuring the possibility of configuring alerts (on exceeding the limit, the expiration of the validity period, the validity of the scoring assessment) in the credit risk management process;
9. Implementation of the procurement process in the Company based on the applicable Order Creation Rules in the SAP SRM system. At this point, attention is drawn to the necessity to introduce solutions that will facilitate the implementation of tasks by the Company employees. A high degree of dependence between the use of designed control mechanisms and individual employee knowledge was found, and thus the real risk of their misapplication;
10. Introduction of a clear division of tasks in internal compliance regulations in the process of updating normative acts in the Company as a result of changes in the regulatory environment;
11. Improving mechanisms for dissemination of compliance knowledge among employees of the Company by launching new functionalities on the e-learning platform;
12. Improving the mechanisms for implementing professional ethics in the Company, by clarifying the principles set out in the regulations on estimating the value of gifts received / given by employees. The issue of the form of gifts giving/accepting of which is acceptable still requires clarification in the regulations;
13. Designing and application of control mechanisms serving the Compliance system implementation;
14. „Compliance Policy” update. The internal regulations related to the Policy should be updated, mainly as regards the adaptation to the current structure;
15. Formal definition of the liability for the realisation and supervision over the Compliance Policy in ENEA S.A. The question of defining the liability for the implementation of the process of updating the normative acts in the Company as a result of changes in the commonly binding regulations must be ordered. The liability for the coordination / supervision over the implementation of the Compliance System in the other ENEA Group Companies must be also specified.

In the area of *information and communication*, attention was drawn to, among others:

1. Designing, formalizing and applying solutions for the ongoing implementation of recommendations issued after testing of the Business Continuity Plan.
2. The possibility of introducing solutions that will improve the flow of information in the process of implementing these recommendations, including:
 - a. definition of the form of submitting justification of possible changes in the Schedule and of the recipient of this information by the organizational units responsible for the implementation of recommendations,
 - b. determination of the competence in granting consent to change the Schedule for the implementation of recommendations issued after the BCM tests in the Company,
 - c. determination of the form, scope and frequency of reporting the results of the implementation of recommendations issued after the BCM tests to the Management Board of the Company.

As far as the last element of the COSO I model is concerned, i.e. monitoring and supervision, the following has been identified:

1. Operation of the Audit Committee of the Supervisory Board and co-operation with the internal audit function;
2. Internal audit activities aimed at improving processes in ENEA Group, including in ENEA S.A. and supporting the effectiveness of internal control, risk management and compliance systems, based on the approved audit plan for 2017;
3. Inclusion of the internal audit function in the organisational structure (functional reporting to the Audit Committee of the Supervisory Board), regular meetings with the Control and Audit Office and the Management Board and the Audit Committee;
4. Development of the Principles for information flow within Internal Controls in ENEA Group, which describe the procedure in the case of control conducted by the parent in the Companies and constitute the Derivative Act of ENEA Group according to Article 26 item 3 of ENEA Group Code;
5. Introduction of mechanisms and definition of division of tasks in order to report financial data on external advisory services to the Company's Management Board and Supervisory Board. The designed process is implemented and is part of the recommendations of the Minister of Energy on monitoring the situation in companies with shares owned by the State Treasury. An analysis of the correctness of the classification of the costs of services provided by Public Relations Agencies in terms of business consulting will optimize the aforementioned the reporting process;
6. Undertaking works in order to implement the obligations arising from Article 17 (2) (1) – (3) of the Act on the Principles of State Property Management, i.e. introduction in the Company's Statute of the requirement to obtain the consent of the Supervisory Board for performing activities of material value, i.e. the consent to conclusion of a contract for legal services, marketing services, interpersonal relations (public relations) and social communication as well as management consultancy services if the amount of the anticipated fee exceeds PLN 500,000 per annum. In June 2017, the General Shareholders' Meeting adopted an amendment to the Statute of ENEA S.A., implementing the requirements of the Act. The registration process of the amended Statute in the National Court Register, launched in July 2017, ended on 06.03.2018.

In the opinion of the Supervisory Board, the operation of the Audit Committee is an important element of the internal control system which was responsible, among others, for monitoring of the financial reporting process and of the efficiency of the internal control systems, risk management, compliance and internal audit.

In the reporting period, the Audit Committee, in particular:

- a. held regular meetings with the external auditor and the Management Board, during which the following issues were discussed: annual and interim financial statements, consistency of the accounting policy followed by the Capital Group and its conformity with the International Financial Reporting Standards,
- b. held regular meetings with the internal auditor, during which decisions and recommendations made by the internal audit functions were discussed and the response of the Company's Management Board to those recommendations was monitored,
- c. participated in the process of developing the annual audit plan,
- d. issued opinions on the annual audit plan and internal audit budget plan and submitted the said documents for the Supervisory Board's approval,
- e. accepted information for the Supervisory Board on the results of the audit of the financial statements of ENEA S.A. and the ENEA Capital Group for the financial year ended 31.12.2017, in which it reported the results of the audit, explained how the audit contributed to the reliability of financial reporting in the Company and defined the role of the Audit Committee in the audit process.

In the Supervisory Board's opinion, the internal audit function, performed by the Audit Management Department is an important element of the internal control and monitoring system.

Internal audit at ENEA S.A. was functionally reported to the Audit Committee, reporting the audit results concurrently to the Management Board and Audit Committee. In order to ensure the adequate level of independence of the audit function, the Supervisory Board approved of the annual audit plan, the annual

budget of the audit unit and – if necessary – issued an opinion on electing, appointing or recalling the head of the internal audit office. In 2017, actions were taken to extend the function of the Audit Management Division by transforming the Control and Audit Office into the Audit Department, finalized at the beginning of 2018. The above will allow for work in the field of internal audits to be continued and internal controls to be performed at the same time which will bring value for the Company.

As far as **risk management** is concerned, the Supervisory Board issued a positive opinion on the scope of conducted works, including in particular:

1. Updating the set of documents regulating the area of managing corporate risk, currency risk and interest rate risk, credit risk, liquidity, commodity risk, and also the Business Continuity Management Policy including the methodology;
2. Further computerization of the risk management area (implementation of systems supporting corporate and credit risk management);
3. Approval of mitigation strategies for individual key risks;
4. Monitoring and cyclical reporting as regards corporate risks, in particular as regards the status of mitigation implementation and levels of meters for monitoring the changes in the exposure to risks;
5. Cyclical reporting within financial risks - leading monitoring of financial meters and limits for exposure to risks and making business decisions based on them;
6. Further extension of the credit-scoring scope of ENEA's largest contractors (including debtors) allowing for:
 - a. reduction of credit risk, i.e. probability of the Group incurring financial losses due to counterparties' failure to fulfil contractual obligations,
 - b. reduction of the ratio of overdue receivables to the level of 16.04% in 2017 from 19.19% in 2016;
7. Approval of the interest rate risk management strategy for 2017 in the ENEA Group and the currency risk management strategy regarding exposure to this risk of ENEA Capital Group companies;
8. Conducting an operational test of one of the critical sales processes.

The risk management model implemented in ENEA CG assumes a comprehensive coverage of the issue of risk management, specifying detailed rules of identification and assessment of risks, monitoring exposures to risks and preparation and monitoring of plans of procedure with risks key for the Company. Adopted rules are set based on the highest managerial standards and are compliant with best market practices being in force within this area.

In the course of auditing the internal control system, within the corporate risk and business continuity management, the Company identified areas where the existing internal control mechanisms can be further improved:

- a. Verification of the Risk Register for the Company in connection with tasks resulting from the strategy for the sales area and projects included in the Main Development Plan of the ENEA Group, including projects related to ENEA S.A. This results from the assumptions defined in the Risk Management Methodology in the ENEA Group. In 2017, the process of developing the Area Strategies and the Main Development Plan of the ENEA Group continued;
- b. Defining the principles of information flow between the unit monitoring the implementation of strategic projects in the Company and the unit coordinating the corporate risk management process in the Company in order to optimize this process.

The following activities were undertaken in the compliance area:

In 2017, ENEA S.A. continued work in order to maintain and improve the compliance function in the ENEA Group. The company took proper care of the transparency of its operation, functioning in accordance with the law and promoting positive ethical standards. The compliance risk management system takes into account the expectations of shareholders as well as the needs of the business environment and at the same time is an important element of responsible management.

2017 was another year dedicated to the development of the system. Processes were implemented to increase the effectiveness of its further development in Group companies. Thanks to this, the Company strengthened its competitive position and built a positive work environment, emphasizing at the same time the ethical side of the organizational culture of the ENEA Group.

Improving and maintaining an effective compliance system allows better identification of non-compliance risks and faster detection of potential irregularities. The ongoing cooperation of people dedicated to the compliance area in individual entities of the ENEA Group ensures, in turn, the building of competences and the exchange of experience in the functioning of the system.

In order to popularize the system among the employees of the Group, the Company introduced an e-learning training system for people starting work in the ENEA Group and a system of regular trainings for people already employed as regards issues covered by the Compliance Policy, including anti-corruption regulations. Thanks to the conducted trainings, the employees have a sense of responsibility for the functioning and image of the ENEA Group and for their own activities. At the same time, they have the opportunity to raise their knowledge and awareness of the risk of non-compliance and as regards compliance with the rules of professional ethics.

ENEA S.A. pays attention to ongoing adaptation of its internal regulations as well as general group regulations to the changing legal regulations. For this purpose, ongoing monitoring of the legal area, periodical review, verification and modification of normative acts are carried out. In order to increase the efficiency of the Group's adaptation to the changing regulations, the Group applies the developed mechanisms of Corporate Governance.

Apart from the Policy itself, the compliance system in the ENEA Group also includes the Code of Ethics and Values. They constitute a set of formal rules that promote ethical behaviour as well as set patterns of conduct. The Employer provides Employees and contractors with the possibility of anonymous reporting of any ethical irregularities, including those related to corruption on dedicated communication channels. Employees can also report any doubts or questions regarding lawful and ethical conduct.

The Supervisory Board of ENEA S.A., assessing the efficiency of tools applied from within this scope, issues a positive opinion on the operations relating to the implementation of comprehensive solutions as regards strengthening of the system of internal control and compliance, paying attention to the fact that their implementation is part of the principles fulfilled by the Company and included in the amended set in the "Best Practices of WSE Listed Companies 2016" adopted by the Board of the Warsaw Stock Exchange.

9. Evaluation of compliance by the Company with disclosure requirements regarding the application of the corporate governance principles determined pursuant to the Stock Exchange Regulations and legal provisions concerning current and periodic information provided by securities issuers.

In consideration of the requirement set out in Rule II.Z.10.3 of the "Best Practices of WSE listed Companies 2016" pursuant to which in addition to activities required under the law the Supervisory Board is obligated to draw up and submit to the General Meeting of Shareholders once a year an assessment of the fulfilment by the company of disclosure requirements regarding the application of the corporate governance principles determined in the Stock Exchange Regulations and of the legal provisions concerning current and periodic information published by issuers of securities, the Supervisory Board made an analysis of fulfilment by ENEA S.A. in 2017 (until the date of approval of this Report) of:

- disclosure requirements to the extent of publication of current reports regarding the incidents of violation or waiver of individual corporate governance principles in the Electronic Information Database,
- disclosure requirements within the publication of a statement of compliance with corporate governance within the frame of the annual Management Board report on the Company's operations,
- disclosure requirements within publication of certain information on the corporate website of ENEA S.A.

Within the frame of the conducted analysis the following documents, information and circumstances were taken into account:

- current report No. 1/2016 dated 2 March 2016 on the scope of application of the “Best Practices of WSE Listed Companies 2016”,
- annual reports for 2016 published in 2017 including a statement of compliance with corporate governance principles laid down in the “Best Practices of WSE Listed Companies 2016” as part of the Management Board reports,
- annual reports for 2017 published in 2016 including a statement of compliance with corporate governance principles laid down in the “Best Practices of WSE Listed Companies 2016” as part of the Management Board reports,
- information pertaining to corporate governance published on the corporate website of ENEA S.A.,
- the actual status of compliance with the Best Practices of WSE Listed Companies by ENEA S.A.

Having read the aforementioned documents and information, the Supervisory Board concluded that in 2017 there had been events that would affect the scope of compliance with Best Practices of WSE Listed Companies 2016 previously communicated by the Company. In view of the above, in 2017, the Company complied with all recommendations and detailed rules, except for those listed below:

- recommendation IV.R.2., VI.R.1., VI.R.2., VI.R.3., detailed rules II.Z.3., II.Z.5, II.Z.7, II.Z.8, IV.Z.2., VZ5 from the set of "Best practices of WSE Listed Companies 2016" effective from 1 January 2016.

Following a thorough analysis, the Supervisory Board confirmed that information provided in fulfilment of the disclosure requirements regarding compliance with the corporate governance rules reflects the actual status of application of the Best Practices of WSE Listed Companies by ENEA S.A.

In view of the foregoing, the Supervisory Board of ENEA S.A. issued a positive opinion on the fulfilment by the Company of the disclosure requirements regarding compliance with the corporate governance rules, as determined in the Stock Exchange Regulations and with provisions pertaining to current and periodic information published by issuers of securities. The Supervisory Board shares the Company’s opinion that in line with the adequacy principle, currently there is no justification for complying by the Company with some of the recommendations and detailed rules of BPLC which the Company renounced.

10. Evaluation of the expediency of the sponsorship and charity activities carried out by the Company.

The Supervisory Board monitors the implementation of sponsorship activities in conformity with the “Rules for conducting sponsorship activities in ENEA Group” in force at the Company and on the basis of the “Best Practices within sponsorship activities of companies with the State Treasury shareholding” published on 15 June 2016. Consequently, the Supervisory Board issues opinions on the annual sponsorship activity plans and reports on implementation of those activities.

As far as charity activity is concerned, the Supervisory Board is provided with periodic information on the activity of the ENEA Foundation as well as it approves grants awarded to ENEA Foundation by ENEA S.A.

11. Comments of the Supervisory Board concerning co-operation with the Management Board.

After having evaluated the work of each of the Members of the Management Board holding functions in the Company's Management Board in 2017, the Supervisory Board recommends that the Ordinary General Meeting of Shareholders should discharge the following persons from liability for the performance of their duties in the financial year 2017:

- Mr Mirosław Kowalik,
- Mr Wiesław Piosik,
- Mr Piotr Adamczak,
- Mr Mikołaj Franzkowiak.
- Mr Rafał Szymański (a Member of the Supervisory Board of ENEA S.A. delegated to act as a Member of the Management Board for Corporate Affairs),
- Mr Piotr Olejniczak,
- Mr Zbigniew Piętka.

Signatures of Members of the Supervisory Board of ENEA S.A.:

Stanisław Hebda - Chairman of the Supervisory Board _____

Paweł Jabłoński - Vice-Chairman of the Supervisory Board _____

Rafał Szymański - Secretary of the Supervisory Board _____

Sławomir Brzeziński - Member of the Supervisory Board _____

Wojciech Klimowicz - Member of the Supervisory Board _____

Ireneusz Kulka - Member of the Supervisory Board _____

Tadeusz Mikłosz - Member of the Supervisory Board _____

Piotr Mirkowski - Member of the Supervisory Board _____

Roman Stryjski - Member of the Supervisory Board _____

Poznań, 23 May 2018