



***Report of the Supervisory Board of ENEA S.A.
on its operations in 2018***

Poznań, 11 April 2019

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

In 2018, the Supervisory Board of ENEA S.A. operated as the Supervisory Board of the 9th term.

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

As of 1 January 2018, the Company's Supervisory Board of the 9th term operated in the following composition:

1. Stanisław Kazimierz Hebda – Chairman of the Supervisory Board
2. Piotr Kossak ¹⁾ – Vice-Chairman of the Supervisory Board
3. Rafał Szymański – Secretary of the Supervisory Board
4. Rafał Bargiel ²⁾ – 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 ¹⁾ – Member of the Supervisory Board
9. Paweł Skopiński – Member of the Supervisory Board
10. Roman Stryjski ¹⁾ – Member of the Supervisory Board

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

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

In 2018, the composition of the Supervisory Board of ENEA S.A. changed in the following way:

- 1) on 13 March 2018, Mr Paweł Skopiński resigned as Member of the Supervisory Board, effective as of 13 March 2018;
- 2) On 22 March 2018, the Company received a statement from the Minister for Energy on the appointment of Mr Ireneusz Kulka as Member of the Supervisory Board pursuant to § 24(1) of the Company's Statute;
- 3) on 16 April 2018, the Management Board of ENEA S.A. learned of the statement of the Minister for Energy dated 13 April 2018 on the dismissal of a Member of the Company's Supervisory Board under the power vested in the Minister for Energy pursuant to § 24(1) of the Company's Statute. In accordance with the said power, on 15 April 2018 Mr Ireneusz Kulka was dismissed from the Supervisory Board of the Company;
- 4) on 16 April 2018, the Extraordinary General Meeting of ENEA S.A.:
 - a) dismissed Mr Rafał Bargiel and Mr Piotr Kossak as members of the Supervisory Board of ENEA S.A.,
 - b) appointed Mr Ireneusz Kulka and Mr Paweł Jabłoński as Members of the Company's Supervisory Board, with the resolution on the appointment of Mr Paweł Jabłoński coming into force upon its adoption with effect from the day the candidate obtained a positive opinion of the Council for Companies with State Treasury Shareholding and State Legal Persons, *i.e.* from 20 April 2018;
- 5) on 31 July 2018, Mr Rafał Szymański resigned as Member of the Supervisory Board, effective as of 31 July 2018;
- 6) on 24 September 2018, the Extraordinary General Meeting of ENEA S.A. appointed Mr Paweł Koroblowski as Member of the Supervisory Board.

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

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

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

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

In 2018, the Supervisory Board of the 9th term held 15 meetings and adopted a total of 95 resolutions (including 5 resolutions through email voting pursuant to § 6(6) of the Rules of the Supervisory Board of ENEA S.A.).

The issues addressed under the supervisory and control activities of the Supervisory Board in the 2018 financial year included:

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

In 2018, the Supervisory Board did not have to appoint a certified auditor.

(On 19 December 2017, the Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o. as 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 2018 and the Material and Financial Plan of ENEA Capital Group for 2018 were approved by the Supervisory Board on 25 January 2018.

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

a) on 12 April 2018, the Supervisory Board issued a positive opinion on:

- Non-consolidated financial statements of ENEA S.A. for the financial year ended on 31 December 2017,
- Report of the Management Board on the operations of ENEA S.A. and ENEA Capital Group in 2017,
- Consolidated Financial Statements of ENEA Capital Group for the financial year ended on 31 December 2017.

b) on 12 April 2018, the Supervisory Board issued a positive opinion on and recommended to the Ordinary General Meeting granting:

- President of the Management Board of ENEA S.A., Mr Mirosław Kowalik, discharge in respect of the fulfilment of his duties in the period from 1 January 2017 to 31 December 2017,
- Member of the Management Board of ENEA S.A., Mr Piotr Adamczak, discharge in respect of the fulfilment of his duties in the period from 1 January 2017 to 31 December 2017,
- Member of the Management Board of ENEA S.A., Mr Piotr Olejniczak, discharge in respect of the fulfilment of his duties in the period from 1 October 2017 to 31 December 2017,
- Member of the Management Board of ENEA S.A., Mr Zbigniew Piętka, discharge in respect of the fulfilment of his duties in the period from 10 October 2017 to 31 December 2017,

- Member of the Management Board of ENEA S.A., Mr Mikołaj Franzkowiak, discharge in respect of the fulfilment of his duties in the period from 1 January 2017 to 24 August 2017,
 - Member of the Management Board of ENEA S.A., Mr Wiesław Piosik, discharge in respect of the fulfilment of his duties in the period from 1 January 2017 to 24 August 2017,
 - Member of the Supervisory Board of ENEA S.A., Mr Rafał Szymański, delegated to act as member of the Management Board, discharge in respect of the fulfilment of his duties in the period from 24 August 2017 to 1 October 2017.
- c) on 17 May 2018, the Supervisory Board issued a positive opinion on:
- amending § 20(2)(2) and § 40(4) of the Statute of ENEA S.A.,
 - amending § 23 and § 40 of the Statute of ENEA S.A. by changing item 5 and adding item 7,
 - amending § 20(5)(5) of the Statute of ENEA S.A.
- d) On 23 May 2018, the Supervisory Board issued a positive opinion on the motion of the Company's Management Board to distribute the net profit of ENEA S.A. 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 be allocated to increase reserve capitals designated for investment financing.
- e) On 12 September 2018, the Supervisory Board issued a positive opinion on the motion of the Company's Management Board to express a 'directional consent' to commence the Construction Stage of Ostrołęka C project.
- f) On 17 May 2018, the Supervisory Board issued a positive opinion on amending:
- § 20(2)(2) and § 40(4) of the Statute of ENEA S.A.,
 - § 23 and § 40 of the Statute of ENEA S.A. by changing item 5 and adding item 7,
 - § 20(5)(5) of the Statute of ENEA S.A.

4) Approval of the Company's Organisational Rules:

On 25 January 2018 and subsequently on 17 May 2018, the Supervisory Board approved the amendments to the Organisational Rules of ENEA S.A.

5) Granting approvals to the Management Board:

In 2018, the approvals granted by the Supervisory Board to the Management Board included the following:

- adoption of Annex No. 1 to the contract with M. Romanowski i Wspólnicy Sp. k., established in Warsaw, for legal representation and related legal counselling,
- conclusion by ENEA S.A. of a contract for donating PLN 600,000 (six hundred thousand zloty) to the ENEA Foundation,
- conclusion of a general sponsorship agreement with the Polish Federation of Rowing Associations,
- conclusion of an Annex to the Investment Agreement between ENEA S.A., ENERGA S.A. and Elektrownia Ostrołęka Sp. z o.o.,
- conclusion of contracts for the provision of operational business consultancy services to ENEA S.A.,
- conclusion of Annexes No. 5 and No. 6 to the Shareholder Agreement CRUn/ZAM/DR RR/33/4299/2014 ("Shareholder Agreement") dated 3 September 2014 between ENEA S.A., PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A. and Tauron Polska Energia S.A.,
- determining the method of exercising the voting right at the Shareholders' Meetings of ENEA Wytwarzanie Sp. z o.o., ENEA Operator Sp. z o.o., ENEA Elektrownia Połaniec S.A., ENEA Trading Sp. z o.o., ENEA Centrum Sp. z o.o., ENEA Serwis Sp. z o.o., ENEA Oświetlenie Sp. z o.o., ENEA Pomiary Sp. z o.o. and ENEA Logistyka Sp. z o.o. as regards determining the remuneration of Management Board members (for establishing the Management KPIs for 2018),

- conclusion of Annex No. 1 to the Cooperation Agreement for wholesale trading of 17 March 2016 between ENEA S.A. and ENEA Trading Sp. z o.o.,
- granting guarantees and sureties to ENEA Capital Group Companies by ENEA S.A.,
- determining the method of exercising the voting right at Shareholders' Meetings / the General Meeting of companies significant for the group as regards determining the remuneration of Management Board members (this refers to annexes to management service contracts),
- determining the method of exercising the voting right at Shareholders' Meetings / the General Meeting of ENEA Capital Group companies as regards the amendment of the Articles of Association of the Companies / the Statute of the Company,
- determining the method of exercising the voting right at the Extraordinary Shareholders' Meeting of ENEA Oświetlenie Sp. z o.o. as regards increasing the share capital of ENEA Oświetlenie Sp. z o.o. by PLN 16,000,000.00,
- conclusion of a title sponsorship agreement with KS Energetyk Poznań,
- conclusion of a title sponsorship agreement with the Sports Club of the Academic Sports Association at the Jacob of Paradies University in Gorzów Wielkopolski,
- conclusion of a title sponsorship agreement with PMPG Polskie Media S.A.,
- conclusion of contracts with Contractors selected in procedures for the selection of an agency supporting ENEA S.A. in the area of ATL and BTL, and the selection of a sponsorship marketing agency,
- determining the method of exercising the voting right at the Extraordinary Shareholders' Meeting of Elektrownia Ostrołęka Sp. z o.o. as regards the approval for conclusion by the Management Board of Elektrownia Ostrołęka sp. z o.o. of a public procurement contract with the General Contractor – Consortium of GE Power Sp. z o.o., the Leader of the Consortium, and ALSTOM Power Systems S.A.S.,
- conclusion of Annex No. 1 to the Investment Agreement of 31 March 2017 between Węglokoks S.A., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (closed-end fund), Towarzystwo Finansowe Silesia sp. z o.o., PGE Górnictwo i Energetyka Konwencjonalna S.A., ENERGA Kogeneracja sp. z o.o., PGNiG Termika S.A., ENEA S.A. and Polska Grupa Górnicza S.A.,
- conclusion of a contract with the Contractor selected in the selection procedure for an agency supporting ENEA S.A. in event-type activities,
- determining the method of exercising the voting right at the Extraordinary Shareholders' Meeting of ENEA Wytwarzanie Sp. z o.o. as regards: (i) division of ENEA Wytwarzanie Sp. z o.o. by separating certain assets and transferring them to ENEA Ciepło Sp. z o.o., established in Białystok, as well as approving the amendment of the Articles of Association of ENEA Ciepło Sp. z o.o., in accordance with § 20(5)(5)(c) of the Statute of ENEA S.A.; and (ii) the sale of a stake in ENEA Ciepło Sp. z o.o. and ENEA Ciepło Serwis Sp. z o.o. by ENEA Wytwarzanie Sp. z o.o. to ENEA S.A., in accordance with § 20(5)(5)(i),
- taking up by ENEA S.A. of 1,577,452 post-division shares of ENEA Ciepło Sp. z o.o. of the nominal value of PLN 50 each and PLN 78,872,600.00 in total, in accordance with § 20(3)(13) of the Statute of ENEA S.A.,
- implementing a project involving the acquisition by ENEA S.A. of: 1,315,753 shares in ENEA Ciepło Sp. z o.o. of the nominal value of PLN 50 each and PLN 65,787,650 in total for a total of PLN 281,539,273.91 and 50 shares in ENEA Ciepło Serwis Sp. z o.o. (ECS) of the nominal value of PLN 100 each and PLN 5,000 in total for a total of PLN 19,178,461.80, in accordance with § 20(3)(7) and (13) of the Statute of ENEA S.A.,
- conclusion of contracts with Contractors that placed their bids in the tender proceedings for the provision of legal services to ENEA S.A. in 2019-2020,
- conclusion of an agreement on legal representation and related counselling in relation to the proceedings concerning the implementation of Ostrołęka C project,

- debt release of the Independent Public Health Service Establishment in Śrem for PLN 919,370.67 in court and enforcement fees with interest as of 22 November 2018,
- conclusion of framework agreements in the proceedings for:
 - a) selection of an agency supporting ENEA S.A. in the area of ATL and BTL,
 - b) selection of an agency supporting ENEA S.A. in the area of sponsorship marketing and event-type activities,
- conclusion of a title sponsorship agreement with Grono Sportowa Spółka Akcyjna,
- voting at the Shareholders' Meeting of Elektrownia Ostrołęka Sp. z o.o., established in Ostrołęka, in favour of adopting a resolution to approve issuing a Notice to Proceed to the General Contractor, the Consortium of GE Power Sp. z o.o., the Leader of the Consortium, and ALSTOM Power Systems S.A.S.

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

In 2018, the Supervisory Board did not adopt any resolutions on granting approval to Members of the Management Board to sit in the governing bodies of other companies, associations and foundations.

Additionally, the Supervisory Board carried out the following activities:

- adopted a resolution on supplementing the compositions of the Supervisory Board Committees,
- amended a resolution on approving Management KPIs for members of the Management Board of ENEA S.A. for 2017,
- adopted its position on the motion of members of the Supervisory Board of ENEA S.A. on calling the election of members of the Supervisory Board of ENEA S.A. that are chosen by employees,
- issued a positive opinion on the Report on implementation of the promotion plan for sponsorship activities in ENEA Group in 2017,
- approved the Management KPIs for Members of the Management Board of ENEA S.A. for 2018,
- established the consolidated text of the Statute of ENEA S.A.,
- appointed Mr Paweł Jabłoński as Vice-Chairman of the Supervisory Board of ENEA S.A.,
- issued a positive opinion on the Report by ENEA S.A. on representation expenditures, expenses on legal services, marketing services, public relation services and social communication services and on consultancy services related to the management for the year ended on 31 December 2017,
- adopted a resolution on the conclusion of Annexes to the Agreements for the provision of management services with Members of the Management Board of ENEA S.A.,
- adopted the Report of the Supervisory Board of ENEA S.A. on the operations in 2017 and decided to submit it to the Company's Ordinary General Meeting,
- took note of the Report of the Audit Committee of ENEA S.A. Supervisory Board on its operations in 2017,
- appointed Mr Piotr Mirkowski as Secretary of the Supervisory Board of ENEA S.A.,
- adopted the new "Rules for election and dismissal of Members of the Supervisory Board of ENEA S.A. chosen by employees" and repealed the "Rules for election and dismissal of Members of the Supervisory Board of ENEA S.A. chosen by employees" adopted by Resolution of the Supervisory Board of ENEA S.A. No. 19/VI/2009 of 26 March 2009, as amended,
- confirmed the fulfilment of the Management KPIs in 2017,
- approved the Annual Audit Plan for 2019 for ENEA Group and the Budget of the Audit Management Department for 2019,
- approved ENEA Group's Promotion Plan for 2019,
- approved the terms and conditions for the continuation of the insurance contract against civil liability of members of governing bodies of ENEA Capital Group Companies,

- took note of the Report of the Audit Committee of ENEA S.A. Supervisory Board on its operations in H1 2018,
- approved the schedule for meetings of ENEA S.A. Supervisory Board and the Committees of ENEA S.A. Supervisory Board in 2019.

The Supervisory Board reviewed the information received from the Management Board, relating in particular to:

- the “Construction of bituminous coal-fired supercritical 1,075 MWe gross capacity unit – a report following the commissioning of Unit 11” project, implemented by ENEA Wytwarzanie Sp. z o.o.,
- opinion of the Information Safety Manager on the provision of personal data to the Supervisory Board of ENEA S.A.,
- launching new public procurement procedures for:
 - selection of an agency supporting ENEA S.A. in the area of ATL and BTL,
 - selection of an agency supporting ENEA S.A. in the area of sponsorship marketing and event-type activities,
- use of the ‘Enea’ trade mark,
- involvement of ENEA S.A. in: PGG, Ostrołęka C, PGE EJ 1, ElectroMobility projects,
- review of the power of attorney regulations at ENEA S.A. and its subsidiaries,
- procedures carried out from 1 January 2016 to 31 December 2017 in ENEA Capital Group including procedures with one contractor, emergency procedures and procedures without following the regulations for contracts exceeding PLN 1,000,000 gross,
- list of all contracts exceeding one million zloty from 1 January 2016 to 31 December 2017 in ENEA Capital Group,
- employment in the Capital Group Companies, including the employee numbers as at the end of 2015, 2016 and 2017,
- Company’s position on the media reports on spending of the National Foundation in the context of financial support provided by ENEA S.A.,
- assessment of the internal control system at ENEA S.A., provided by the Audit Committee,
- certified auditor’s opinion and report on the audit of financial statements of ENEA S.A. and ENEA Capital Group for 2017,
- advisers employed at ENEA Capital Group Companies after January 2016,
- involvement of ENEA Group in supporting vocational education,
- progress in electromobility-related issues,
- list of all contracts concluded by ENEA Oświetlenie Sp. z o.o. with third party providers from 1 January 2016 to 31 December 2017,
- protection against cyber-attacks in place at the Company and at ENEA Capital Group,
- erasing metadata from documents and information published on enea.pl,
- implementation of the General Data Protection Regulation (GDPR) in ENEA Group,
- conflict of interest in relation to the biomass and combustion by-product audit in 2008–2013,
- cooperation with the Polish National Foundation,
- final audit report No. 8/2018 on commissioning services related to compliance with procurement regulations, the Code of Ethics of ENEA Capital Group and the ENEA Group Compliance Policy,
- settlement of the contract and the whole related to the construction of Unit 11,
- expenditure incurred by PGE EJ1 Sp. z o.o. on the provision of physical security services,

- planned extension of the Promotion Plan for 2018 with sponsorship involvement in the Camerimage International Film Festival project,
- reports on the implementation of an investment project that involves the construction of 1,000 MW Ostrołęka C power unit,
- current operations of the ENEA Foundation,
- issues related to the construction of a permanent dam on the Vistula river, including the analysis of possible scenarios of cooling water demand at Koźienice Power Plant in 2018–2029 in the context of potential solutions,
- agreement on possible capital involvement of the closed-end fund Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Energia in the Ostrołęka C project,
- issuing a Declaration confirming the involvement of ENEA S.A. in the Ostrołęka C project,
- business plan of ElectroMobility Poland S.A.,
- settlement of variable remuneration for 2017 for former Management Board members,
- Resolution No. 271/2018 of the Management Board of ENEA S.A. of 5 July 2018 on the measures taken by the Management Board of ENEA S.A. to ensure correct and uninterrupted implementation of the investment project involving the construction of the Ostrołęka C power unit with capacity of ca. 1,000 MW,
- Annexes to the Agreements for the provision of management services concluded with Members of the Management Boards of ENEA Capital Group Companies,
- history of employment/cooperation of ENEA Capital Group Companies with a subsidiary's Management Board Member,
- reasons behind the cancellation of the competition for the positions of a subsidiary's Management Board Member,
- measures taken to secure the position/interest of the Company in the area of energy, CO₂ emission allowances and property rights to certificates of origin in relation to the steep rise in prices on the wholesale market of electricity, CO₂ emission allowances and RES ownership rights, having a direct impact on the trading result of ENEA S.A.,
- overview of payment card statements of the current Members of ENEA S.A. Management Board,
- payments resulting from non-competition obligations, severances, Management KPIs and other benefits for former Members of subsidiaries' Management Boards,
- overview of contracts from the non-employee fund in 2018 in ENEA Capital Group Companies,
- applicable procedure for the appointment of Supervisory Board Members in ENEA Capital Group,
- capacity market – the objectives of the capacity market and its impact on ENEA Capital Group's operations,
- contracting biomass by ENEA Elektrownia Połaniec S.A.,
- implementation of the Rules for election and dismissal of Members of the Supervisory Board of ENEA S.A. chosen by employees.

At its meetings, the Supervisory Board reviewed current information on:

- economic and financial results of the Company and ENEA Capital Group,
- composition of the governing bodies of ENEA S.A.'s subsidiaries,
- the renegotiation procedure for long-term contracts for the purchase of RES property rights,
- costs of the Management Board and Supervisory Board of ENEA S.A. and of consulting in the Company,

- costs of Management Boards, Supervisory Boards and consulting in ENEA Capital Group Companies.

The operations of the Supervisory Board of ENEA S.A. were documented in the minutes of the meetings of the Supervisory Board in 2018.

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

In 2018, the Company's Supervisory Board did not adopt any resolutions on changing the Company's Management Board composition.

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

In its operations the Supervisory Board was assisted by Committees acting as collective advisory and opinion-giving bodies of the Supervisory Board, appointed from among members of the Supervisory Board. In 2018, 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.

Since early 2018, the Audit Committee of the Supervisory Board of the Company of the 9th term operated in the following composition:

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| 1. | Piotr Kossak ¹⁾ | - Chair |
| 2. | Rafał Bargiel ²⁾ | - Member |
| 3. | Sławomir Brzeziński | - Member |
| 4. | Wojciech Klimowicz | - Member |
| 5. | Piotr Mirkowski ¹⁾ | - Member |
| 6. | Roman Stryjski ¹⁾ | - Member |

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

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

In 2018, the following changes were made to the composition of the Audit Committee:

- on 25 January 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 Resolution of the Extraordinary General Meeting of ENEA S.A. dated 28 December 2017;
- on 16 April 2018, the Extraordinary General Meeting of ENEA S.A. dismissed Mr Rafał Bargiel and Mr Piotr Kossak, Members of the Audit Committee, from the Supervisory Board of ENEA S.A.;
- on 17 May 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 Resolution of the Extraordinary General Meeting of ENEA S.A. dated 16 April 2018;
- on 17 May 2018, the Members of the Audit Committee of the Supervisory Board of ENEA S.A. elected one of them as the Chair of the Committee, namely Mr Ireneusz Kulka;
- on 17 May 2018, Mr Stanisław Hebda resigned as member of the Audit Committee.

Therefore, as of 31 December 2018 the Audit Committee of the Company's Supervisory Board of the 9th term was composed of:

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| 1. Ireneusz Kulka ¹⁾ | – Chair |
| 2. Sławomir Brzeziński | – Member |
| 3. Wojciech Klimowicz | – Member |
| 4. Piotr Mirkowski ²⁾ | – Member |
| 5. Roman Stryjski ²⁾ | – Member |

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

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The election of the Audit Committee Members was preceded by the verification of compliance by the Members of the Supervisory Board of ENEA S.A. with the independence criteria specified in the Act on certified auditors, auditing firms and public supervision as well as in the Best Practice for WSE Listed Companies 2016.

In 2018, the Audit Committee held 8 meetings and adopted 8 resolutions (including 1 resolution through electronic mail voting pursuant to § 7(9) and § 6(6) of the Rules of the Supervisory Board of ENEA S.A.) which related to:

- adoption of the final report No. 1/2018 on the audit of the overall assessment of the internal control system at ENEA S.A. by the Audit Committee of the Supervisory Board of ENEA S.A. for the purpose of accepting and providing management information on the overall assessment of the internal control system at ENEA S.A. to the Supervisory Board of ENEA S.A.,
- adoption of information for the Supervisory Board on the results of the audit related to the financial statements of ENEA S.A. and ENEA Capital Group for the financial year ended on 31 December 2017,
- adoption of the *Report of the Audit Committee of ENEA S.A. Supervisory Board on its operations in 2017*,
- election of the Chair of the Audit Committee of ENEA S.A. Supervisory Board,
- assessment of the methods of auditing the Condensed Semi-Annual Non-Consolidated Financial Statements of ENEA S.A. for the period from 1 January 2018 to 30 June 2018 and the Condensed Semi-Annual Non-Consolidated Financial Statements of ENEA Capital Group for the period from 1 January 2018 to 30 June 2018,
- adoption of the report of the Audit Committee of ENEA S.A. Supervisory Board on its operations in H1 2018,
- granting consent to the provision of an acceptable service other than audit by PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.) at Lubelski Węgiel "Bogdanka" S.A.,
- giving an opinion on the Annual Audit and Internal Control Plan for 2019 for ENEA Capital Group and the Budget of the Audit Management Division for 2019 and submission of the above documents together with the opinion to the Supervisory Board of ENEA S.A. for approval as well as concerning the adoption of a Training Plan.

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

- submitting draft Non-consolidated Financial Statements of ENEA S.A. for the financial year ended on 31 December 2017 for consultation,
- submitting draft Consolidated Financial Statements of ENEA Capital Group for the financial year ended on 31 December 2017 for consultation,

- submitting draft “Report of the Management Board on the operations of ENEA S.A. and ENEA Capital Group in 2017” and draft “Consolidated report on payments for public administration in 2017” for consultation,
- presenting a report on the operations of the internal audit function in ENEA Group for 2017,
- Final Report No. 4/2017 on the audit of implementation of connection agreements relating to the 4th and 5th connection groups in terms of obligations resulting from the quality tariff,
- Report on the risk management area in ENEA Group,
- Final Report No. 15/2017 on the audit of launching fuel purchase processes at ENEA Elektrownia Połaniec S.A.,
- Final Report No. 6/2017 on the audit of cooperation between ENEA Wytwarzanie Sp. z o.o. and ENEA Centrum Sp. z o.o. pursuant to the General Agreement for the provision of complex process servicing of 30 December 2014,
- final reports on unscheduled audits Nos. 14/2017, 18/2017 and 19/2017 in the area of purchases,
- report on the operations of the Audit Management Division in ENEA Group for H1 2018,
- conclusions from the initial review of audit No. 7/2018 on the operational parameters of ENEA Wytwarzanie Sp. z o.o. power plant and ENEA Elektrownia Połaniec S.A. power plant,
- final report No. 5/2018 on the audit of implementation of contracts for the transport of steam coal and residual fuel oil in ENEA Wytwarzanie Sp. z o.o. and report No. 6/2018 on the evaluation of the functioning of the slag and ash storage site and maintenance management at the slag and ash mix storage site in Świerże Górne,
- final inspection report No. 3/2018 relating to the correctness of business travel cost settlement in ENEA Group,
- final inspection report No. 1/2018 relating to purchases, with a particular focus on the purchase planning and order value estimation in ENEA Group,
- final inspection report No. 2/2018 relating to the compliance with the guidelines of the Management Unit in the Purchase Division on annexing agreements in ENEA Group,
- final report on audit No. 4/2018 relating to customer service, with a particular focus on customer complaints regarding distribution services,
- results of the correctness check relating to the settlement of mission expenses, commissioned by the Audit Committee on 21 November 2018, as presented by the Audit Department Director,
- final report on audit No. 2/2018 of IT, with a particular focus on customer service and skill matrices of individual IT systems,
- final report on check No. 4/2018 relating to the compliance with rules and provisions of the “Rules for operation, organisation and control of the pass system in the movement of people, fixed assets and vehicles as well as the settlement of working time of ENEA Wytwarzanie Sp. z o.o. staff”,
- responses to the recommendations of the Audit Committee of ENEA S.A. Supervisory Board of 21 November 2018.

Moreover, in 2018 the Audit Committee held meetings with:

1. representatives of the external auditor:
 - a) KPMG Audyt Sp. z o.o. in relation to the following issues:
 - planned scope of and approach to the audit for the financial year ended on 31 December 2017,
 - summary of the audit of financial statements of ENEA S.A. and ENEA Capital Group for 2017,
 - b) PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. in relation to the following issues:
 - discussion of the key aspects of work on the review of financial statements of ENEA S.A. and ENEA Capital Group for H1 2018,

- discussion about audit methods applied to the Condensed Semi-Annual Non-Consolidated Financial Statements of ENEA S.A. for the period from 1 January 2018 to 30 June 2018 and the Condensed Semi-Annual Non-Consolidated Financial Statements of ENEA Capital Group for the period from 1 January 2018 to 30 June 2018 as well as discussion about conclusions from the initial audit of the financial statements for 2018.

2. the Director of the Audit Department of ENEA S.A., which featured discussions of the findings and recommendations resulting from the checks and audits.

Moreover, on 19 March 2019 the Committee approved information for the Supervisory Board on the results of the audit of the financial statements of ENEA S.A. and ENEA Capital Group for the financial year ended on 31 December 2018, in which it reported the results of the audit, explained how the audit contributed to the reliability of financial reporting in the Company and specified the role of the Audit Committee in the audit process.

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

Since early 2018 the Nominations and Remuneration Committee of the Company's Supervisory Board of the 9th term operated in the following composition:

1. Rafał Szymański – Committee Chair
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(3) of the Act of 11 May 2017 on certified auditors, auditing firms and public supervision and within the meaning of the corporate governance principles included in the Best Practice for WSE Listed Companies 2016.*

In 2018, the following changes were made to the composition of the Nominations and Remuneration Committee:

- on 13 March 2018, Mr Paweł Skopiński resigned as member of the Supervisory Board and thus as member of the Nominations and Remuneration Committee,
- on 16 April 2018, the Extraordinary General Meeting of ENEA S.A. dismissed Mr Rafał Bargiel and Mr Piotr Kossak from the Supervisory Board of ENEA S.A. and thus from the Nominations and Remuneration Committee of the Supervisory Board of ENEA S.A.;
- on 17 May 2018, the Supervisory Board of ENEA S.A. appointed Mr Stanisław Hebda to the Nominations and Remuneration Committee and Mr Paweł Jabłoński to the Supervisory Board of ENEA S.A. by Resolution of the Extraordinary General Meeting of ENEA S.A. dated 16 April 2018;
- on 31 July 2018, Mr Rafał Szymański resigned as member of the Supervisory Board, and thus as member of the Nominations and Remuneration Committee of ENEA S.A. Supervisory Board, effective as of 31 July 2018;
- on 23 August 2018, the Members of the Nominations and Remuneration Committee elected one of them as the Chair of the Committee, namely Mr Paweł Jabłoński;
- on 13 December 2018, the Supervisory Board of ENEA S.A. appointed Mr Paweł Koroblowski to the Nominations and Remuneration Committee.

Therefore, as of 31 December 2018 the Nominations and Remuneration Committee of the Company's Supervisory Board of the 9th term was composed of the following members:

1. Paweł Jabłoński – Committee Chair
2. Stanisław Hebda – Member of the Committee
3. Paweł Koroblowski – 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(3) of the Act of 11 May 2017 on certified auditors, auditing firms and public supervision and within the meaning of the corporate governance principles included in the Best Practice for WSE Listed Companies 2016.

As on the day of this report, the Nominations and Remuneration Committee of the Company's Supervisory Board has not changed.

In 2018, the Nominations and Remuneration Committee held 7 meetings and adopted 13 resolutions (including 1 resolution through electronic mail voting pursuant to § 7(9) and § 6(6) of the Rules of the Supervisory Board of ENEA S.A.). The Committee's meetings focused mainly on drafting recommendations for the Supervisory Board regarding for example:

1. an amendment to the Resolution on approval of Management KPIs for Members of the Management Board of ENEA S.A. for 2017,
2. providing an opinion on the proposed Management KPIs for Members of the Management Board for 2018 as required by the Supervisory Board of ENEA S.A.,
3. conclusion of Annexes to the Agreements for the provision of management services with Members of the Management Board of ENEA S.A.,
4. implementation of the Management KPIs in 2017 and establishment of the amount of Variable Remuneration due to Members of the Management Board of ENEA S.A.

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

In the opinion of the Supervisory Board, in 2018 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 areas in a reliable and efficient way. The Supervisory Board was composed of people with various competences and experience. Compliance with the statutory requirement that at least one member of the Supervisory Board should be an independent member within the meaning of the corporate governance principles included in the Best Practice for WSE Listed Companies 2016 was ensured. Several Members of the Supervisory Board are independent members within the meaning of Article 129(3) of the Act of 11 May 2017 on certified auditors, auditing firms and public supervision.

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

The scope of issues addressed by the Supervisory Board in 2018 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 the implementation of major investment projects.

On 24 July 2018, the Company received a letter from the Polish Financial Supervision Authority (KNF) regarding the issue of at least 1 member of the Audit Committee having knowledge and skills in accounting or auditing financial statements, to which the Company replied on 6 August 2018. Due to the fact that the letter was addressed to the Supervisory Board of ENEA S.A., the Supervisory Board of the Company discussed the issue at the meeting on 24 August 2018.

In view of the foregoing, the Supervisory Board requests that the Company's General Meeting discharge its Members in respect of the fulfilment of their duties in 2018.

7. Information relating to the assessment of “Non-consolidated financial statements of ENEA S.A. for the financial year ended on 31 December 2018”, “Consolidated financial statements of ENEA Capital Group for the financial year ended on 31 December 2018”, “Report of the Management Board on the operations of ENEA S.A. and ENEA Capital Group in 2018”, and the motion of the Management Board

suggesting distribution of the net profit for the period from 1 January 2018 to 31 December 2018.

Acting under Article 382(3) of the Code of Commercial Companies and Partnerships, the Supervisory Board evaluated statements referred to in Article 395(2)(1) and 5 of the said Code, i.e.:

1. Report of the Management Board on the operations of ENEA S.A. and ENEA Capital Group in 2018,
2. Non-consolidated financial statements of ENEA S.A. for the financial year ending on 31 December 2018 covering the documents audited by the certified auditor:
 - consolidated statement of financial position as of 31 December 2018 showing a balance-sheet amount of assets and liabilities equal to PLN 22,943,794 thou. (twenty-two billion nine hundred forty-three million seven hundred ninety-four thousand zloty);
 - non-consolidated profit and loss statement and other comprehensive income for the period from 1 January 2018 to 31 December 2018 showing a net profit of PLN 727,136 thou. (seven hundred twenty-seven million one hundred thirty-six thousand zloty) and the comprehensive income totalling PLN 666,157 thou. (six hundred sixty-six million one hundred fifty-seven thousand zloty);
 - non-consolidated statement of changes in equity demonstrating an increase in equity as of 31 December 2018 of PLN 663,869 thou. (six hundred sixty-three million eight hundred sixty-nine thousand zloty),
 - non-consolidated cash flow statement demonstrating a decrease in the balance of cash of PLN 600,448 thou. (six hundred million four hundred forty-eight thousand zloty);
 - notes to the non-consolidated financial statements covering a description of key accounting rules applied and other explanatory notes,
3. Consolidated financial statements of ENEA Capital Group for the financial year ended on 31 December 2018 covering the documents audited by the certified auditor:
 - consolidated statement of financial position as of 31 December 2018 showing a balance-sheet amount of assets and liabilities equal to PLN 29,965,625 thou. (twenty-nine billion nine hundred sixty-five million six hundred twenty-five thousand zloty),
 - consolidated profit and loss statement and other comprehensive income for the period from 1 January 2018 to 31 December 2018 showing a net profit of PLN 719,250 thou. (seven hundred nineteen million two hundred fifty thousand zloty) and the comprehensive income totalling PLN 630,751 thou. (six hundred thirty million seven hundred fifty-one thousand zloty),
 - consolidated statement of changes in equity for the financial year from 1 January 2018 to 31 December 2018 demonstrating an increase in equity of PLN 1,049,493 thou. (one billion forty-nine million four hundred ninety-three thousand zloty),
 - consolidated cash flow statement demonstrating a decrease in the balance of cash of PLN 36,288 thou. (thirty-six million two hundred eighty-eight thousand zloty);
 - notes to the consolidated financial statements covering a description of key accounting rules applied and other explanatory notes.

After having read and thoroughly examined the certified auditor's Opinion and Report drawn up by PricewaterhouseCoopers Polska Sp. z o.o. Audyt Sp.k., the Supervisory Board concludes that the Non-consolidated financial statements of ENEA S.A. for the financial year ended on 31 December 2018, Report of the Management Board on the operations of ENEA S.A. and ENEA Capital Group in 2018 and Consolidated financial statements of ENEA S.A. and ENEA Capital Group for the financial year ended on 31 December 2018 are in conformity with the books of account and accounting records and documents of the Company and that they truly reflect the actual situation. Therefore, it positively assesses the aforementioned Reports and recommends that the Ordinary General Meeting of ENEA S.A. should examine and approve them.

The Supervisory Board of ENEA S.A. issued a positive opinion on the motion of the Management Board to distribute the net profit for the period from 1 January 2018 to 31 December 2018 in the amount of PLN 727,136 thou. (seven hundred twenty-seven million one hundred thirty-six thousand zloty) in the following way:

- 100% of net profit, i.e. PLN 727,136 thou., to be allocated to increase the reserve capital designated for investment financing.

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

ENEA S.A. generated a positive net financial result in 2018 which totalled to PLN 727,136 thou. and was lower than the result generated in the previous year by PLN 1,086,188 thou. This deviation was influenced by the impairment tests carried out in 2017 and 2018, and thus by the need to change the write-offs regarding the value of shares (year on year deviation of PLN 678,408 thou.). Another reason was the negative result generated on operating activities, which in 2018 was PLN -144,577 thou. (down by PLN 266,457 thou. compared to the previous year's result). It should also be emphasised that the operating result was significantly affected by the recognition in 2018 of costs relating to contracts generating charges of PLN 78,981 thou. In addition, the weaker net result was caused by the Company obtaining PLN 165,241 thou. less in dividends from its subsidiaries.

The net profitability ratio in 2018 oscillated around 15.5% (in 2017: 32.2%), and return on equity was 5.5% (in 2017: 14.4%).

In 2018, the total electricity sales to retail end users amounted to 20.5 TWh and were 14.4% higher than the sales made in the previous year. The number of end users as of 31 December 2018 was approximately 2.5 million, remaining on a level comparable to previous years.

In 2018, ENEA S.A. had the financial resources ensuring support for all ongoing expenses associated to the Company's operations.

The activities conducted by the Company in 2018 are reflected in the major investment projects and initiatives carried out in the relevant business areas:

Mining:

- obtaining new licences – applying for a mining license in K-6 and K-7 zones,
- maintenance of the machine park – purchase and assembly of machines and equipment,
- operating investments – execution of over 37.0 km of excavations,
- other development and maintenance investments:
 - maintenance investments in Zakład Przeróbki Mechanicznej Węgla Sp. z o.o., including modernisation of steel structures and a project for walling-off an electromagnetic separator, construction of a gas drainage system for welding stations,
 - power, telecommunication and mechanical installations.

Generation:

- ENEA Wytwarzanie Sp. z o.o.:
 - completion of modernisation work as part of the project "Modernisation of the stator from Unit No. 8 for reserve". The Institute of Power Engineering has drawn up an oversight report, which was received. The project was completed successfully and timely;
 - completion of work on the project "Upgrade of Unit No. 10" as part of the 2 x 500 MW units upgrade programme, signing the Final Acceptance report of 22 May 2018 and transferring the investment to the assets of ENEA Wytwarzanie Sp. z o.o.,
 - continuation of the SCR installation and modernisation of electrostatic precipitators for Units No. 9 and No. 10 as part of the 2 x 500 MW units modernisation programme,
 - completion of object-oriented works and execution of trials and start-ups according to the schedule "Modernisation of Unit No. 6": on 6 October 2018 → synchronisation of Unit No. 6, on 9 October 2018 → completed trial start-up of Unit No. 6,

- transferring the IOS installation for K7 and K8 boilers in Elektrociepłownia Białystok to the assets of the Company.
- ENEA Elektrownia Połaniec S.A.:
 - commissioning of the SCR installation in Unit No. 4,
 - the “Phoenix” project (modernization of Unit No. 5) – concluding contracts for the modernisation of the turbine generator part; commencing prefabrication; signing a contract for the construction of an SCR installation; an ongoing tender procedure for the boiler part.

Distribution:

- completion of the realisation of a range of investments related to the expansion, automation and modernisation of the unit and power grids, including those related to network connections, as well as the modernisation of stations, including the reconstruction of Main Power Supply Point Zdroje and Main Power Supply Point Dąbie with the construction of the 110 kV Dąbie–Zdroje line, the modernisation of Main Power Supply Point Żary, the construction of Main Power Supply Point Choszczno II and Main Power Supply Point Recz with the construction of the 110 kV Choszczno II–Recz line,
- continuation of existing investments and commissioning of new ones to be carried out in 2019 and later on,
- further streamlining of the processes of connecting customers to the power grid,
- further development of information tools supporting the grid management.

Trading:

1. Wholesale Trade:

- running an interdisciplinary project involving the implementation of the capacity market and participation in major auctions, which aims to maximise revenue for ENEA Capital Group’s generation units,
- carrying out activities aimed at optimisation of fuel (coal, biomass, fuel oil) deliveries by using extraction resources of ENEA Capital Group amidst closures and constraints of railway lines capacity,
- cooperation with PGG S.A. and JSW S.A. in the area of management of sludge and flotation concentrates under the agreements on sludge supplies to Koźlenice Power Plant and Połaniec Power Plant,
- development of a full financial, accounting and business concept of changing the model of steam coal trading and developing a model of optimisation of coal purchase and transport costs using the contract for difference (CFD) as a tool for settling the surplus obtained following the relocation of domestic supplies,
- implementation of a new, effective biomass contracting strategy which allowed the Company to cover the current demand resulting from the construction of Unit No. 9 (the “green unit”) at ENEA Elektrownia Połaniec S.A. and to restore safe biomass inventories,
- extension of the product range with specialised services for the RES segment 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,
- building a long-term concept of conventional asset management by centralising the management of the sales and purchase margin level in one place in ENEA Capital Group, which serves as an additional tool for effective market and regulatory risk mitigation,
- management of wholesale trade regulations at a national and European level,
- continuation of analytical work on forecasting models for foreign electricity markets, and then implementation of an operationally selected neural network model supporting the trade-related decision-making process.

2. Retail Trade:

- extension of the ENEA Smart product line by adding the Heating package,
- launching the sales of the Energy+ Specialist product in a new formula and extending the offer to address the business client segment,
- introduction of new model contracts taking into account the new GDPR-related provisions,
- seasonal promotions promoting the product offer and the Purchase Zone loyalty programme,
- extension of the ENEA Eco product line with Electric Accumulation Heaters and Heat Pumps.

3. Customer Service:

- commissioning of self-service IVR (Interactive Voice Response) platforms for Customers,
- opening of the visualised Customer Service Centres in Krosno Odrzańskie, Wolsztyn, Nakło nad Notecią, Gryfice, Świnoujście, Kościan, Świecie, Mogilno, Goleniów and Choszczno,
- implementation of project activities aimed at introducing a digital pen in Customer Service Centres,
- launching of a billing system of gaseous fuel for production,
- conducting design works and finalisation of the preparations of the functional design for e-Customer Service Centre 2.0,
- implementation of automation processes in the customer service area through, e.g., robotic process automation (RPA) that will translate into timely achievement of key indicators within the implemented processes,
- production launch of the CRM system in the Contact Center, which supports daily Customer service,
- integration of the CRM system with the Contact Center platform, which enabled automating the process of Customer identification and authorisation,
- implementation of Active Sales in Customer Service Centres (first stage of structuring Customer portfolios),
- launching a pilot project in the Bydgoszcz area of mobile sales in the Customer Service Centres structure,
- adaptation of the rules for processing, use and storage of personal data, as well as forms and documents to the new GDPR-related provisions to effectively exercise the rights of ENEA S.A. Customers arising from the GDPR,
- launching of the functionality of making appointments with Customer Service Offices via the website www.enea.pl or through Contact Center consultants.

Additionally, the significant activities realised in 2018 include the following:

- the final adoption for implementation of the development strategy for business areas: Generation, Distribution, Wholesale, Trading and the Business Support Centre,
- approval of the commencement of the construction phase of Ostrołęka C Power Plant. On 28 December 2018, the Management Board of Elektrownia Ostrołęka Sp. z o.o. issued to the General Contractor (GE Power Sp. z o.o. Consortium – Consortium Leader and ALSTOM Power Systems S.A.S.) a Notice to Proceed (NTP) with the works related to the construction of Ostrołęka C Power Plant. Earlier on, an agreement was signed between ENEA S.A., ENERGA S.A. and Ostrołęka C Power Plant, which defined the new rules of cooperation between the investment partners. Under the said agreement, the investment contract signed by the signatories on 8 December 2016, was terminated, along with the annex,
- the Heat Segment was reorganised. ENEA Wytwarzanie Sp. z o.o. was divided by spinning off an organised part of the enterprise in the form of Elektrociepłownia Białystok and transferring it to ENEA

Ciepło Sp. z o.o. Moreover, the shares of ENEA Ciepło Sp. z o.o. and ENEA Ciepło Serwis Sp. z o.o. belonging to ENEA Wytwarzanie Sp. z o.o. were purchased by ENEA S.A.,

- action was taken to sell all shares held by ENEA S.A. in PGE EJ 1 Sp. z o.o. following an initial interest expressed by PGE Polska Grupa Energetyczna S.A. in purchasing shares in PGE EJ 1 Sp. z o.o. held by ENEA S.A. An initial interest in the sale of shares in PGE EJ 1 Sp. z o.o. was also expressed by the other minority shareholders, i.e. TAURON Polska Energia S.A. and KGHM Polska Miedź S.A.
- further efforts to develop electromobility:
 - ENEA Serwis, Kolejowe Zakłady Łączności, Grupa LOTOS, Poczta Polska and Telewizja Polska signed agreements on joint action towards the development of electromobility. The objective of the signed documents is to develop electromobility and to strengthen cooperation between the companies in this regard;
 - the National Centre for Research and Development (NCBiR) and energy companies: ENEA S.A., ENERGA-Operator S.A., PGE Dystrybucja S.A. and TAURON Dystrybucja S.A. signed a Letter of Intent relating to multilateral cooperation for the development of electromobility in Poland. The objective of the “e-VAN” programme is to develop an innovative, emission-free light commercial vehicle. The vehicle will be tailored to the needs of the signatories of the letter of intent so that it can be used, e.g., in fleets of company vehicles used for daily tasks.

In accordance with the Corporate Governance Principles for Supervised Institutions¹ and the “Best Practice for WSE Listed Companies 2016”², an annual audit of the internal control, risk management and compliance systems as well as of the internal audit function was carried out at ENEA S.A. The aim of the audit was to verify the adequacy and effectiveness of the said internal audit systems and functions, implemented at the Company level. The audit was carried out based on the key elements of the internal control system, as defined in the COSO I model.

In the opinion of the Supervisory Board, activities taken at ENEA S.A. in 2018 contributed to strengthening the internal control, risk management and compliance systems and the internal audit functionality.

In the area of **internal control environment**, the activities worth mentioning include the efforts made to adapt the anti-corruption system constituting an element of the compliance system in the Company to the changes in the regulatory environment, e.g. the amended Act on Criminal Liability of Collective Entities.

The Company mitigates corruption risks by the solutions introduced so far in such areas as receiving and giving gifts, compliance training, handling reports of ethics-related irregularities.

Solutions enabling preventing risks of corruption in other areas, in particular those concerning relations with business partners, should be added to internal regulations and introduced in practice e.g. through the use of specific clauses in contracts or adequate procedures for verifying business partners.

In the area of **risk identification and assessment**, attention was paid to such issues as the design and implementation in 2018 of solutions that enable linking the process of corporate risk identification and assessment at ENEA S.A. with the risks / problems identified in the course of projects, as included in the Main Development Plan of ENEA Capital Group.

To improve the said process, it is important to further work on the quality of project documentation held by the project managers (through including precise information on project risks / problems in this documentation).

As regards **risk management**, the Supervisory Board also issued a positive opinion on:

1. implementation of the mechanisms, processes and regulations implementing the provisions of *Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU* (MIFID2) in ENEA Group,

¹ Published by the Financial Supervision Authority – Chapter 8. Key systems and internal functions.

² Published by Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) – Chapter 3. Internal systems and functions.

which allowed the Group to preserve the existing business models related to the financial (mainly commodity) instruments used;

2. development and implementation of the *Methodology of determining write-offs for expected credit losses on long-term debt assets*, by means of which ENEA S.A. controls the process of determining these write-offs;
3. development and implementation of risk management methodology for personal data processing in ENEA Group, which was used to prepare ENEA Capital Group companies for the entry into force of *Regulation (EU) of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)*;
4. development and implementation of the *Principles for information flow between the Audit Department, the Risk Management Department and the Organisation and Compliance Office in order to support the risk management process*, by means of which the process of exchanging information on risks identified during audits and controls, corporate risks and compliance risks was improved at ENEA S.A.
5. intensifying activities in the area of creditworthiness assessment of business partners (a 52% increase in the number of offers assessed compared to 2017), which – combined with effective debt collection – made it possible to reduce the overdue receivables ratio from the institutional clients (large corporate customers) to 6% (7.1% in 2017) and maintain the increase in electricity sales revenues without any deterioration in the quality of receivables;
6. updating the documentation regulating the area of credit and commodity risk management, as well as the Business Continuity Management Policy and Methodology;
7. extension of ENEA Group's Risk Committee's competence to include the Market Regulation Area, which centralised the competence to issue guidelines on consultative, lobbying and negotiation activities with respect to market regulations, as well as analysis of the impact of amended market regulations on the plans and strategy of ENEA Group;
8. further digitisation of the risk management area (development of systems supporting corporate and credit risk management), which made it possible to improve and optimise risk management processes;
9. monitoring of and cyclical reporting on corporate risks, in particular as regards the status of implementation of mitigating measures and the levels of indicators monitoring the evaluation of exposure to risks;
10. monitoring of and cyclical reporting on financial risks that makes it possible to monitor financial indicators and limits for exposure / risks and making business decisions based on them, as well as evaluation of effectiveness of decisions already taken in the past;
11. approval of the currency risk management strategy regarding exposure to this risk identified in the companies of ENEA Group what directly affects the management of cash flows of individual ENEA Capital Group companies.

As regards **control mechanisms**, attention was paid to such issues as:

1. Streamlining the process of managing the deadlines of payments for Company's liabilities. In 2018, multidirectional modifications were introduced to SAP and Document Management System aimed at enhancing the verification of payment deadlines.
2. The activities aimed at strengthening the effectiveness of control mechanisms should be continued, for example by:
 - monitoring whether content experts act in accordance with the assumptions of the purchasing process communicated within the Company;
 - taking possible remedial action.

In the area of **information and communication**, attention was paid to such issues as:

1. Compliance by the Company with the obligation set forth in the Energy Law³ to inform its customers of measures taken to improve energy efficiency and of energy-efficient technical devices.

³ Article 5(6c) of the Act of 10 April 1997 – Energy Law (Journal of Laws Dz.U. of 2018, item 755, as amended).

In 2019, the information published on Company's website on the said issues is planned to be updated in order to: clarify the message on energy-efficient technical devices, and thus build the image of ENEA S.A. as an entity supporting rational use of energy.

2. Introduction of the amended "Energy Efficiency Policy of ENEA Capital Group", which describes such issues as overall assumptions for the communication process on energy efficiency projects, created and implemented in the Group Companies, including ENEA S.A.

In 2019 it is planned to implement solutions that will facilitate an effective flow of information between the Companies on efficiency projects, coordinated by ENEA S.A.

3. Improvement of information flow in the process of monitoring the status of mitigating measures defined after tests of the Business Continuity Plan at ENEA S.A., for instance by imposing a formal obligation on the unit responsible for implementing these measures to:
 - obtain a written consent of a Member of the Management Board for a possible change in the implementation schedule;
 - notify the Coordinator of Business Continuity Management in the Company in writing of a change in the implementation schedule.

In the area of **monitoring and supervision**, it is worth noting that ENEA S.A. introduced measures to ensure that the Company meets its statutory obligations concerning disclosure of extended non-financial information⁴.

The process of drafting the "Statement on non-financial information for 2018" was progressing in a planned and organised manner, enabling its timely publication as a separate part of the "Report of the Management Board on the operations of ENEA S.A. and ENEA Capital Group".

The Company thus complied with the Reporting Guidelines, published by the Chancellery of the Prime Minister, as part of supervision over companies with State Treasury shareholding.

To implement the process in the following reporting periods, it is important to continue work on improving cooperation with organisational units that prepare data for the Statement.

In the view of the Supervisory Board, an important element of the internal control system in the Company in the area of **monitoring and supervision** is also the function performed by:

- Audit Committee,
- Internal Audit.

In 2018, the Audit Committee implemented in particular the following tasks:

1. monitored the process of financial reporting;
2. monitored the effectiveness of internal control, risk management and compliance systems and of the internal audit function;
3. held meetings with the certified auditor and monitored their independence;
4. monitored reliability of the financial information presented by the Company, in particular through the verification of the cohesion of the accounting policy followed by the Capital Group and its conformity with the International Financial Reporting Standards;
5. notified the Supervisory Board of the results of the audit of ENEA S.A. and ENEA Capital Group financial statements for the financial year ended 31.12.2018, explaining how the audit contributed to the reliability of financial reporting in the Company and what the role of the Audit Committee was in the audit process;
6. participated in the process of developing the Annual Audit and Internal Control Plan by issuing opinions on it and submitting it to the Supervisory Board for approval;
7. issued opinions on and submitted the annual budget of the internal audit unit to the Supervisory Board for approval;
8. held regular meetings with the internal auditor, during which he discussed decisions, including recommendations and suggestions, made by the internal audit function, and monitored the response of the Company's Management Board to the above.

⁴ The Accounting Act, the Public Offering Act, the Current and Periodic Disclosures Regulation.

In 2018, the internal audit:

1. functionally reported to the Audit Committee, administratively – to the President of the Management Board, reporting audit and internal control results concurrently to the Audit Committee and the Management Board – the above ensured independence of the internal audit function;
2. it contributed to the improvement of the operational activity of ENEA Group Companies, including ENEA S.A., by:
 - implementation of the audit and control tasks, and *ad hoc* activities of an advisory nature;
 - monitoring the status and effectiveness of implementation of post-audit / post-control recommendations.The said tasks were implemented within the Audit Management Department in ENEA Group covering internal auditors and controllers at ENEA S.A., ENEA Operator Sp. z o.o. and ENEA Wytwarzanie Sp. z o.o.;
3. coordinated external audits of ENEA S.A. conducted by the Supreme Audit Office;
4. 2018 was the first year of the Audit Department's operation at ENEA S.A., which was established as a result of transforming the Control and Audit Office:
 - three units were separated in the organisational structure of the Department, i.e.: Audit Office, Control Office, Internal Control System Support Office;
 - the activities of individual units were conducted concurrently and were of a complementary nature, which supported the effectiveness of the internal control, risk management and compliance systems in the organisation.

It is planned to continue this work in 2019.

In the area of **Compliance**, the previously started work to improve the compliance management system in ENEA Group was continued. The system aims to achieve and maintain an organisational level ensuring the maximum possible elimination of potential threats that may affect ENEA Group, in particular by:

- ✓ promoting ethical and lawful behaviour among the employees,
- ✓ drafting and issuing opinions on internal regulations,
- ✓ informing employees of requirements resulting from the universally applicable laws and internal regulations applicable to the tasks performed by them,
- ✓ ensuring the possibility of reporting infringements of legal provisions, internal regulations and ethical values and principles of ENEA Group, in particular those of a corrupt nature.

In 2018, numerous activities were implemented to make the compliance system in the Group Companies more effective. The Company strengthens its competitive position and builds a positive work environment, emphasising at the same time the ethical side of the organisational culture.

The expanded structure of the compliance system covering the entire ENEA Group enables faster identification of potential compliance risks and detection of potential irregularities, as well as improvement of the existing standards in the Group. The ongoing cooperation between people dedicated to the compliance area in individual entities of ENEA Group additionally ensures the building of competences and the exchange of experience related to the functioning of the system.

In 2018, the most important activities in this area concerned among other things:

- better identification of risks concerning non-compliance of internal regulations with legal provisions – through periodic validity reviews of those documents and the process of issuing opinions on new and updated regulations;
- improvement of the processes for obtaining information and monitoring activities of the Group Companies in matters covered by the reporting process in the area of compliance;
- raising the Group employees' awareness on hazards and how to react to them;
- building awareness of the compliance principles, developing new training materials and conducting e-learning and stationary training in conflict of interest and anti-corruption issues;
- improving mechanisms for implementing professional ethics and preventing corruption through clarifying the provisions of the *Rules on receiving and giving gifts in ENEA Group* by specifying the cases in which an employee of the ENEA Group may give or receive a gift, including the introduction of a ban on giving or receiving money in any form or amount;

- holding a series of meetings for persons responsible for compliance in ENEA Group companies;
- streamlining the procedure for informing employees about changes in internal regulations;
- updating all compliance-related regulations by adjusting them to the requirements of external environment and the adopted standards of conduct;
- clarifying the functions and roles of individual bodies / units in the compliance management process.

The Supervisory Board positively assesses the process conducted at ENEA S.A. of adjusting internal regulations and general group regulations to the evolving legal provisions and market standards. The Company effectively identifies risks related to the process of compliance with internal regulations, e.g. through the monitoring of the legal area, cyclical reviews, verification and necessary modification of normative acts.

While assessing the efficiency of tools applied from within the scope of compliance, the Supervisory Board of ENEA S.A. issued a positive opinion on the operations relating to the implementation and improvement of comprehensive solutions as regards 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 "Best Practice for WSE Listed Companies 2016", as adopted by the Board of the Warsaw Stock Exchange (WSE). In the view of the Supervisory Board, the current compliance risk management system takes into account internal and external expectations and at the same time is an important element of responsible management. The company took proper care of the transparency of its operation, functioning in accordance with the law and promoting positive ethical standards.

9. Evaluation of compliance by the company with disclosure requirements regarding the application of the corporate governance principles specified in the WSE Regulations and in legal provisions on current and periodic information provided by security issuers.

In consideration of the requirement set out in Rule II.Z.10.3 of the "Best Practice for WSE Listed Companies 2016" whereby in addition to activities required by law the Supervisory Board is obliged to draw up and submit to the General Meeting once a year an assessment of compliance by the company with disclosure requirements regarding the application of the corporate governance principles specified in the WSE Regulations and in legal provisions on current and periodic information provided by security issuers, the Supervisory Board analysed in 2018 and 2019 (until the date of approval of this Report) the compliance by ENEA S.A. with:

- disclosure requirements as regards the publication in the Electronic Information Database of current reports on the incidents of violation of or departing from individual corporate governance principles,
- disclosure requirements as regards the publication of a statement of compliance with corporate governance as part of the annual Management Board report on the company's operations,
- disclosure requirements as regards the publication of certain information on the corporate website of ENEA S.A.

The analysis covered documents, information and circumstances including:

- Current Report No. 1/2016 of 2 March 2016 on the scope of application of the "Best Practice for WSE Listed Companies 2016";
- Current Report No. 1/2019 of 26 February 2019 on the scope of application of the "Best Practice for WSE Listed Companies 2016";
- annual reports for 2017 published in 2018 including, as part of the Management Board report, the statement of the Management Board of ENEA S.A. on the application of corporate governance principles as laid down in the "Best Practice for WSE Listed Companies 2016";
- published annual reports for 2018 including, as part of the Management Board report, the statement of the Management Board of ENEA S.A. on the application of corporate governance principles as laid down in the "Best Practice for WSE Listed Companies 2016";
- information on corporate governance published on the corporate website of ENEA S.A.,

- the actual status of compliance with the “Best Practice for WSE Listed Companies” by ENEA S.A.

Having read the said documents and information, the Supervisory Board concluded that in 2018 there had been no events that would affect the scope of compliance with the “Best Practice for GWE Listed Companies 2016” previously communicated by the Company. However, following the amendments made to individual corporate documents in force at ENEA S.A., such as the Statute of the Company or Regulations of the Supervisory Board of ENEA S.A., some of the Company’s explanations regarding the reasons for departing from some of the corporate governance principles laid down in the “Best Practice for WSE Listed Companies 2016” required updating. The Company made the necessary updates by publishing the relevant information in a statement of the Management Board of ENEA S.A. on the application of corporate governance principles contained in the “Best Practice for WSE Listed Companies 2016” published as part of its annual reports, and also by publishing Current Report No. 1/2019 in the Electronic Information Database.

In view of the above, in 2018 the Company complied with all recommendations and detailed rules, except for those listed below:

- recommendations 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 Practice for 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 Practice for 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 WSE Rules and with provisions on current and periodic information provided by security issuers. The Supervisory Board shares the Company’s opinion that in line with the adequacy principle, at present it is no longer justified to follow some of the recommendations and detailed rules included in the Best Practice which the Company renounced.

10. Evaluation of rationality 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 Sponsorship Activities in ENEA Group” in force at the Company (3rd edition, applicable since 12 September 2017), and on the basis of the “Best Practice for Sponsorship Activities of Companies with State Treasury Shareholding” published on 15 June 2016. The Supervisory Board thus approves plans of annual sponsorship activity and issues opinions on reports of activities implementation.

As regards charity activity, the Supervisory Board receives periodic information on the activity of the ENEA Foundation and approves donations made to the ENEA Foundation by ENEA S.A.

In the opinion of the Supervisory Board, the sponsorship and charity activities serve the interests of the Company and its shareholders.

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

After having evaluated the work of each of the Management Board Members of ENEA S.A. holding functions in the Management Board of the Company in 2018, the Supervisory Board recommends that the Ordinary General Meeting should grant discharge to the following persons in respect of the fulfilment of their duties in the financial year 2018:

- Mr Mirosław Kowalik,
- Mr Piotr Adamczak,
- 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 _____

Piotr Mirkowski - 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 _____

Paweł Korobłowski - Member of the Supervisory Board _____

Roman Stryjski - Member of the Supervisory Board _____

Poznań, 11 April 2019