



ZAAWANSOWANE TECHNOLOGIE INFORMATYCZNE

***Semi-Annual Report
on Issuer's Activity
Talex S.A. in Poznan***

August 2017

Company Information

Company Name :	TALEX Spółka Akcyjna
Registered Office :	61 – 619 Poznań, ul Karpia 27D
Phone Number :	(061) 8 275 500
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Taxpayer Registration Number :	782 – 00 – 21 - 045
Company Registration Number:	004772751
NACE :	5184

Branches

At present, the Company has fourteen branches, including one foreign branch headquartered in the Czech Republic.

Branches in Poland:

- Talex Białystok, ul. Ogrodowa 31;
- Talex Bielsko-Biała, ul I Dywizji Pancерnej 45;
- Talex Gdynia, ul. Chwarzniewska 170b;
- Talex Katowice, Al. W. Roździeńskiego 91;
- Talex Kraków, ul. Zbożowa 2;
- Talex Lublin, ul. Jana Sawy 2;
- Talex Łódź, ul. Piotrowska 276;
- Talex Olsztyn, ul. Jagiellończyka 23;
- Talex Rzeszów, ul. Powstańców Listopadowych 3;
- Talex Szczecin, ul. Pomorska 53;
- Talex Toruniu, ul. Włocławska 167;
- Talex Warszawa, ul. Olbrachta 94;
- Talex Wrocław, ul. Śrubowa 1;

Foreign branch:

- branch in Prague, Průmyslová 7.

Field of activity

The joint-stock company TALEX S.A. (previously the limited liability company TALEX Sp. z o.o.) has been a provider of technologically advanced IT services for small and medium-size businesses since 1990.

The Company's activity focuses on three main areas: integration of ICT systems, IT outsourcing and software development.

The integration of ICT systems includes a large number of services. The Company tries to provide its clients with a full range of services, starting with preliminary analyses and expert consultation, project design and management services, development and introduction of integration procedures, system configuration and tuning, ending with the organisation of staff training programs, whose focus are the products and services offered by the Company. Such an extensive offer guarantees the integrity of the customers' IT systems as well as high quality, reliability and adherence to the basic security standards.

The platforms covered by the integration services offered are Intel/RISC, UNIX, i5/OS, Windows and Linux. The services include, among other things, consolidation and virtualisation, high-availability solutions (clusters), backup and recovery services (recovery centers, data replication, disk arrays etc.) as well as information security solutions, such as preventing unauthorised intrusions into ICT networks or developing

private virtual networks. The Company also provides network integration services, including DWDM, IP telephony, structural cabling, network monitoring etc.

The outsourcing offer focuses on two main areas – Data Center services and services guaranteeing continuity of business processes. Talex S.A. provides its customers with the access to its own Data Center. This may happen in a number of ways: the customers may use only the space of the Data Center or use the full service, which includes offering space, hiring equipment, configuring applications as well as administering and monitoring. At the customer's request, applications can be monitored 24/7. In case of equipment or software failures, the Company's experts offer remote or onsite support. The qualifications of the engineers are confirmed with certificates from the leading equipment and software manufacturers.

A special outsourcing service offered by the Company are rollouts – mass upgrades of ITC infrastructure for large customers, especially those with branches across the whole country. Talex S.A. has specialised in such activities, having performed many rollouts, for example, in three leading Polish banks.

The software production services include custom-made software, developing modules extending the existing applications, tuning the applications to the specific needs of customers or developing codes used in integration processes. The Company uses modern technologies, such as Java, Microsoft.NET; Oracle, DB2, MS SQL databases; and WebSphere, WebLogic and JBoss application servers.

Software produced by the Company is used in financial institutions, state-owned enterprises as well as large industrial companies.

TALEX S.A. is a partner of many leading hardware and software manufacturers. The Company's employees have attended training courses and passed exams, which is confirmed by obtained certificates.

Procedures of all the activities of the Company are compliant with the quality management system, defined by the ISO 9001:2000 standard. Given its specific business profile and the importance of its customers, the Company also obtained the ISO 27001:2005 certification, which confirms that the procedures followed by the Company guarantee full security of customers' data, as well as the ISO 20000-1:2011 certification, which confirms that the management of IT services, in particular services that the Company delivers in the area of installations, relocations, enlargement, changes, hardware and software removal, and hardware and software failures elimination for the business partners of Talex, is in accordance with this international standard.

IT market and perspectives of development for the Company

Polish IT market is expected to maintain its positive growth dynamics in the years 2016-2021. According to PMR, in 2017 is forecast to grow at the level of 5.5% to 35.8 billion PLN.

In the opinion of PMR analysts, currently the weakest forecasts are for the IT hardware market as in the coming period, along with lower volume of the sale of computers and monitors on the home market, the printing solutions market is expected to record a decline in sales.

In contrast, in IDC's opinion, outsourcing services whose share in the IT services market in 2013-2018 is expected to increase from 18.8% to 21.9% will have higher growth rates. The most dynamic growth will be noted in the services of hosting of infrastructure and client application management, which can contribute to a wider use of cloud solutions.

According to PMR, one of the most important trends in IT outsourcing in Poland in the coming years will be the increase in the popularity and use of the abovementioned services in the cloud. During the next years the public cloud will become increasingly important on the Polish market. It is mostly a significant potential audience and popularization of such solutions among small and medium sized companies that work to the benefit of public cloud solutions. In the case of private cloud, the size of the contracts which tend to have a completely different character and scale than those purchased in the public cloud, is a factor with a similar impact. According to PMR analysts, the scale of the phenomenon in SMEs and higher volumes of the sale of services will take the lead, while large companies will adopt cloud solutions partially by fitting them into the existing infrastructure and using de facto the hybrid model. Most of the revenue from cloud services is generated by the software as a service model (SaaS); the IaaS and PaaS services have a slightly smaller revenue share. The willingness to use cloud computing is not dependent on the size of business or industry, but rather depends on the customers' awareness.

An exceptionally high growth dynamics of the value of Polish market of solutions based on public cloud results from permanently low level of the use of such services.

The preferences of the largest recipients of IT in Poland are continuously shaped by the desire to have their own, physical infrastructure, and therefore the data center market in Poland is growing at double digit rates. The airspace in commercial facilities is constantly growing.

According to PMR's latest report "Data centre market in Poland 2016. Market analysis and development forecasts for 2016-2021", the value of the Polish data centre market increased by 15% last year. At the same time the area of data centres expanded by over 10,000 m², including both server space and the whole infrastructure necessary for the operation of a facility.

Although the geographical location of a data centre is without greater significance, it is still uncommon for most clients to place their resources in a server room located in a city other than the one in which their headquarters or their Polish office operates. Most frequently the main reason for choosing a server room in the same city is the security factor and the wish to have a back-up data centre or server resources in alternative locations.

According to the analyses by Future Market Insights, Polish IT market is driven by a growing interest of the enterprises in the solutions that bring an edge over the competition. Sectors that invest most are the financial, public, and manufacturing sectors. It can be clearly seen that there is a demand for CRM solutions, optimization of processes (BPM), Business Intelligence tools (BI), and optimization of fixed asset management. In this year, Business Intelligence solutions should become increasingly important among large companies, and cloud computing - in the SME sector, as pointed out also by the PMR reports.

The cloud provides the opportunity to make good use of the potential of IT, also in the banking sector, with which Talex has been cooperating for many years. The analysis shows that customers can focus on the provision of financial services rather than on investing their resources in IT. Therefore, bankers are increasingly counting the costs of services that must be sustained over time and compare them with the costs of investing in their own IT environment. The bank which takes into consideration the use of cloud separates in its business the thing due to which it actually competes with other banks from the remaining elements, which are already less important but generate costs that should be limited.

It is also worth noting that, according to the estimates by Gartner, by 2020 about 25 billion devices will be continuously gathering data. This means for the IT business - for which there is no worthless data, a greater demand for data storage and processing, and therefore also greater demand for analysts and effective tools for analysing and archiving of information overload. The coming year may actually bring the solutions facilitating the management of information as well as its appropriate classification and analysis. However, data analysis requires large amount of information to be collected which means the necessity of constant improvement of the mechanisms for data archiving and recovery, which in turn will create an even greater demand for computing power.

Due to the above, the Company plans to continue to focus its activities on: outsourcing, integration services in the field of information technology and software production. Treating outsourcing services as one of the strategic directions of development, the Company is consistently, for several years, developing the necessary skills and technical infrastructure.

Factors affecting the results achieved by the Company in the next quarter include primarily the implementation of contracts with regular, long-term customers of the Company, in particular with the clients from banking and financial sectors such as Bank Zachodni WBK S.A., ING Bank Śląski S.A., Credit Agricole Bank Polska S.A., and PKO Bank Polski S.A.

The services provided in the project realized in the period from 2013 to 2016 entitled "Creation of IT Centre providing modern services", under the Operational Programme Innovative Economy, priority axis 4 "Investments in innovative enterprises," measure 4.5 "Support for investment of considerable importance to the economy," sub-measure 4.5.2 "Support for investment in the modern services sector", also fit well into the services, described above, namely Cloud Computing services.

In the coming years the market of cloud services shall be more focused on applications available in the cloud rather than on the infrastructure itself. Surely, we will face the optimization of the costs of cloud operation and the use of cloud by the companies. It is necessary to better manage the performance and monitor costs. The cloud is a normal business product and has to meet the criteria of the product to be offered, among others, to banks, which means it has to be governed by the specific licensing legislation, be effective and have a determined price.

Additionally, the Company's results in the second half of this year will be influenced by the ongoing project entitled "„Development of theoretical foundations and a prototype of a hybrid decision-making and rating system." The above mentioned project was granted a funding within the framework of the Wielkopolska Regional Operational Programme for 2014-2020 (priority axis 1 „Innovative and competitive economy", Action: 1.2 „Enhancing the innovative potential of enterprises in Wielkopolska region").

Expenditures on fixed asset of the Company in 2016

In the first half of 2017, the Company incurred a total expenditure on tangible fixed assets and intangible assets in the amount of PLN 714 thousands.

SPECIFICATION	Expenditures incurred in the first half of 2017 (PLN in thds)	Plans for 2017 (PLN in thds)
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Purchase of technical equipment and machinery	387	500
Purchase of means of transport	196	300
Purchase of other fixed assets	77	100
Intangible assets (software)	17	100
Investments in rented properties	4	100
A and B Office building	15	-
Extension of Data Center building	18	-
TOTAL	714	1,100

The Company incurred the largest expenditures on the purchase of technical equipment and machinery as well as the expansion of the office building.

Plans for increase and maintenance of tangible fixed assets in 2017

Plans for 2017 include further expenditures for the renewal and supplementation of technical equipment necessary for the provision of IT services.

Specification:

- Purchase of technical equipment and machinery PLN 500 thousand
- Purchase of means of transport PLN 300 thousand
- Intangible assets PLN 100 thousand
- Other fixed assets PLN 100 thousand
- Investments in rented properties PLN 100 thousand

TOTAL PLN 1,100 thousand

Basic economic and financial data, disclosed in the semi-annual financial report

Sales and profit in the first six months of 2017

In the first six months of 2017, the Company recorded the revenues of PLN 46,592 thousand, with the profit of PLN 1,439 thousand (in the first half of 2016 the profit of PLN 1,007 thousand).

SPECIFICATION	First six months of 2017 (PLN in thds)	First six months of 2016 (PLN in thds)	Fluctuation
Revenues from sales of products	24,584	24,574	100.04%
Revenues from sales of goods and materials	22,008	18,957	116.09%

In the reporting period, the revenues from sales were higher by 7% than the revenues in the last year. The revenues from sales of products stayed at the similar level (increase by 0.04%), and the sale of goods and materials increased by 16%.

In the analysed period the structure of sales revenues changed. The share of services in sales revenues increased and was about 53%; in the comparable period of the first half of 2016 they accounted for approximately 56% of total sales revenues. The margin on the sale of those services increased. The margin on sales of products was equal to 27%

(25% in the first half of 2016). In the second half of this year, the Company intends to return to the profitability of the sold products on the level of 30% due to better use of lately completed investments.

Revenues from sales of goods and materials accounted for 47% of total sales revenues (in the first half of 2016 they were equal to 44%) with the profitability of 7.9% (8.7% in 2016). The companies are constantly looking for savings which makes the extension of life cycle of IT products to remain a rule. The average time of the use of desktops computers in big enterprises is 5 years. This is influenced by the fact that now the several years old computers are sufficient for ordinary office work where no high computing power is necessary. The laptops are used for the period of 3-5 years but, on average, not longer than for 4 years.

SPECIFICATION	First six months of 2017 (PLN in thds)	First six months of 2016 (PLN in thds)	Fluctuation
Net revenues from sales	46,592	43,531	107.03%
Gross profit from sales of products	6,638	6,116	108.53%
Gross profit from sales of goods and materials	1,739	1,649	105.46%
Gross profit (loss) from sales	8,377	7,765	107.88%
Costs of sales	1,445	1,519	95.13%
General management costs	5,082	4,800	105.88%
Profit (loss) from sales	1,850	1,446	127.94%
Profit (loss) from operating activities	2,053	1,652	124.27%
Gross profit (loss)	1,784	1,306	136.60%
Net profit (loss)	1,439	1,007	142.90%

Higher revenues from the sale of services and higher margin on sales of goods, while maintaining a similar to the previous year level of the sum of the sales costs and general management costs, were reflected in the gross profit from the product sales as well as on others levels of the Company's activity. Due to the signed and already planned contracts which cover both hardware sales and services, the Company plans to make up for the less favourable conditions of products sale from the first half of 2016.

Company assets

The value of fixed assets as at 30.06.2017 amounted to PLN 60,485 thousand and slightly decreased by 0.7% compared to the value at the end of the first half of 2016. The decrease was affected mainly by the changes in the area of intangible assets in view of the planned amortization.

	ASSETS	30.06.2017 (PLN in thds)		30.06.2016 (PLN in thds)	
		(PLN thds)	% of share	(PLN thds)	% of share
I	FIXED ASSETS	60,485	70.73%	65,014	81.82%
1.	Intangible assets	451	0.53%	809	1.02%
2.	Tangible fixed assets	59,530	69.61%	63,850	80.36%
3.	Long-term receivables	-	-	-	-
4.	Long-term investments	-	-	-	-

5.	Long-term prepayments and accrued income	504	0.59%	355	0.45%
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The value of current assets as at 30.06.2017 amounted to PLN 24,956 thousand and was lower by about 74% compared to the value at 30.06.2016. The greatest share in the current assets constituted short-term receivables, which were higher by 93% in relation to the first half of 2016. The Company collected on the bank account the amount of PLN 5,105 thousand, i.e. by over 38% more than in the analogous period in 2016.

	ASSETS	30.06.2017 (PLN in thds)		30.06.2016 (PLN in thds)	
		(PLN thds)	% of share	(PLN thds)	% of share
II	CURRENT ASSETS	24,956	29.18%	14,368	18.08%
1.	Inventories	1,908	2.23%	1,179	1.48%
2.	Short-term receivables	17,273	20.20%	8,932	11.24%
3.	Short-term investments	5,105	5.97%	3,699	4.66%
4.	Short-term prepayments and accrued income	670	0.78%	558	0.70%

Current assets constituted about 28.18% of the total assets of the Company as at the end of the first half 2017 (in 2016 it was equal to 18.08%). This ratio indicates the potential of the company. The higher this part of the index, the higher the liquidity of the Company. Current assets compared to tangible current assets are much more easily converted into cash.

Overall financial condition

Selected financial ratios.

Profitability ratios	1st half of 2017	1st half of 2016	Desired quantities
Return on sales (ROS) Net profit/sale value *100 (%)	3.09 %	2.31%	positive rising
Net profit/sale value *100 (%)	1.68 %	1.27%	positive rising
Return on equity (ROE) Net profit/own equity *100(%)	3.01%	2.19%	positive rising
Adjusted return on assets Net profit + (financial costs – income tax of the finance costs)/ assets*100(%)	2.07 %	1.78%	positive rising
Leverage Profitability of equity – profitability of assets	1.33 %	0.92%	positive rising

The return on sales (ROS) informs about the amount of profit margin in the percentage of sales after deduction of costs and taxes. A higher level of this ratio indicates a more favorable financial condition of the company.

The return on assets (ROA) shows the ability of the entity to generate profit. The higher the level of return on assets, the better the company's financial situation

The return on equity (ROE) indicates the size of the net profit per unit of capital invested in the company. The higher the efficiency of the equity, the better the financial situation of the Company, and the possibility of paying higher dividends.

Leverage indicates whether the operating profit generated by foreign capital is higher than the interests that is whether the company earns money for itself due to the external funding.

Positive leverage occurs when the profitability of the whole capital (equity and foreign) of the company, calculated as the relation between the operating profit and total capital, is higher than the interest rate on debt (foreign capital).

Liquidity ratios	1st half of 2017	1st half of 2016	Desired quantities
Financial liquidity ratio I Current assets / short-term liabilities	1,17	1,19	1,2-1,8
Financial liquidity ratio II (current assets- inventories)/short-term liabilities	1,08	1,10	0,8-1,0
Financial liquidity ratio I short-term investments/ short-term liabilities	0,24	0,31	Min. 0,3

The liquidity ratios have been permanently at the high level which is still very safe for the Company. These ratios define the Company's ability to timely settle its current liabilities. The values of liquidity ratios slightly increased in the first half of 2017, yet they are still clustered around the optimal values, which means that the Company has sufficient funds to repay its liabilities. Higher levels of these ratios would imply the excess liquidity in the Company. Keeping cash in the amount that covers all liabilities, regardless of their maturity, would be uneconomical for the Company.

Debt ratios	1st half of 2017	1st half of 2016	Desired quantities
Overall debt ratio Liabilities and provisions for liabilities/total assets	0.35	0.32	Max 0.5
Long-term debt ratio Long-term liabilities/equity capital	0.18	0.29	Max 0.5-1

Total debt ratio decreased at the end of the first half of 2017 compared to the previous year but has been still at the safe level. In addition, the optimal values of the liquidity ratios, and most of all high level of short-term receivables, reduce the financial risk in the company and the probability of losing the ability to repay the debt.

The long-term debt results from the car fleet lease agreements and IT equipment agreements, as well as the investment loan agreement for financing the already completed investment of the construction of IT Center.

Management performance indicators	1st half of 2017	1st half of 2016	Desired quantities
Receivables turnover ratio Net sales revenues /average receivables	2.63	2.64	7-10
Inventory Cycle Average inventory cycle/ cost of sales *360	7.43	7.93	Decreasing

Receivables Cycle Average receivables /cost of sales * 360	68.53	68.15	Decreasing
Duration of receivables in days Average trade receivables /cost of sales*180	54.54	58.27	Average maturity date
Conversion period of working capital into cash Receivables cycle + inventories cycle (in days)	75.96	76.08	decreasing

The low level of receivables turnover ratio, that is below the value of 7, indicates that the level of debt is high, meaning that the company is crediting its customers excessively, which in practice means a long-term freezing of funds in receivables. In the first half of 2017 the Company managed to raise the value of this ratio to the desired optimum level in comparison to the first half of the previous year.

The inventory cycle indicates the average number of days that have passed since the introduction of inventory to the warehouse up to its leave. The shorter time for the equity in the asset, the better.

The receivables cycle was at a similar level than in the first half of 2016, indicating an extension of the waiting time for repayment of debts. This ratio does not exceed by more than half the deadline described in the terms of sale. Talex, due to the money on the account, can afford to temporary credit its customers, which indeed entails the freezing of funds in receivables but simultaneously allows the Company to entrench the relations with its regular customers and build lasting relationships with the new customers.

At the same time, the duration of receivables in days increased from almost 58 days in the first half of 2016 to almost 54.5 days in the first half of 2017. The extension of the payments period is commonly used as a form of interest-free credit, which is particularly useful in cases where the Company give credits to its customers, determining the extended payments terms.

The analysis of these indicators shows the good overall efficiency of the Company's operations in the first half of 2017. Talex has proper financial liquidity and the profitability and turnover ratios also remain at a good level.

Financial standing

The Company's shareholders' equity as at 30.06.2017 amounted to PLN 47,790 thousand, which comprised

• share capital (3,000,092 shares)	PLN	3,000 thousand
• reserve capital	PLN	39,322 thousand
• net profit/loss for 2016	PLN	1,439 thousand

The Company's standing, in terms of payments, was good in the first six months of 2017. There were no difficulties with prompt payments of taxes, social insurance or payments to employees and suppliers. The Company paid the first instalment of the dividend as well as has timely paid the instalment of the investment credit. Although the amount of the cash at hand and in the bank accounts of the Company decreased in comparison to the previous year, the Company's funds and concluded long-term agreements secure the current needs of the Company.

Total liabilities as at 30.06.2017 amounted to PLN 37,726 thousand, which comprised 79% of shareholders' equity, taking into account that the amount of the liabilities includes also the long-term credit incurred by the Company.

At the date of 30.06.2017, the Company did not take any bank credits. However, on 30 May 2016 the Company signed the investment credit agreement provided by Bank

Zachodni WBK S.A. to the Company in the amount of PLN 17 million gross for the realization of the project entitled "Creation of IT Centre providing modern services," which was increased by the Annex at 13 July 2016 to PLN 19,2 million.

In 2017, the Company invested its free assets mainly in fix-term deposits or placed them in over-night deposit accounts. Both instruments can be considered as risk-free.

The enterprise will continue to finance its activity through the shareholders' equity. Current liabilities will be paid with the Company's current receivables.

Information on buying treasury shares

As at the day of 30 June 2017 the number of own shares did not change because in the described period the Company did not acquire any own shares; the Company received 6,711 own shares in total, at purchase price of PLN 75 thousand.

Financial risk management

Due to the amount of cash that allows the Company for timely payment of its liabilities, the Company's liquidity maintaining on a good level for a couple of years, and a safe level of receivables in relation to the liabilities of the Company, the risk of changes in interest rates does not threaten the activity of the enterprise. Although the Company signed the agreement for the investment credit but the debt as at the day 30.06.2017 amounted to PLN 11,544 thousand, yet the loan was taken out in the framework of the project for which the funding has been granted to the Company under the Operational Programme Innovative Economy 2007-2016 (priority axis 4 "Investments in innovative enterprises," measure 4.5 "Support for investment of considerable importance to the economy," sub-measure 4.5.2 "Support for investment in the modern services sector.") The maximum value of the grant amounts to PLN 7.15 million gross. In July 2016 the Company concluded IRS transaction in the amount of PLN 6 million to partially secure a fixed interest rate of the investment credit. The term of the contract includes the period from 30 June 2017 to 30 June 2020. Repayment of this credit is expected in the analogous period.

The risk of changes in foreign currency exchange rates against PLN was low in the analysed period.

Although the Company did not use the services of funding entities that hedge exchange rate risk, but it also did not purchase or sell currency. The Company made each payment of liabilities in foreign currency from the receivables received from the recipient in a given currency. In the first half of 2017, paid liabilities in foreign currencies amounted to PLN 2,897 thousand, while settled receivables were equal to PLN 4 616 thousand. Thus, the payment of liabilities in foreign currency in the first half of this year comprised less than 4.5% of total liabilities, and receivables in foreign currencies comprised of 7.1% of the company's total receivables.

Due to the Company's good liquidity, Talex can make decisions concerning the sale of currencies in a convenient time.

Employment

On 30.06.2017, the Company had 358 employees. The average employment in the first half of 2017 expressed in full-time jobs equalled 346.66.

Significant risk factors and threats

Risk associated with economic situation

The constant economic and political changes may constitute a source of both threats and opportunities for businesses in Poland. The elements of the country's economic policy most significant for business are employment costs, taxes and investment policy. The key macroeconomic factors include the level of GDP, investment, inflation and exchange rates – especially USD and EUR. The poor state of the economy, and so, poor state of businesses, may result in the decrease of investments, including ICT solutions. Lower demand for such products may cause shrinkage of the market and increased competition resulting in reduction of prices. This may influence the reduction of sales profitability and in longer term also the liquidity of companies operating in this sector.

Risk associated with competition

The Company operates in a sector, where one needs to face intense competition, both from domestic businesses, which have been operating on the market for years, as well as new businesses. The growing number of the latter is a result of, among other things, open borders and the influx of foreign businesses operating in the same sector. Those businesses try to take over part of the market by taking over small domestic companies. Another significant threat is the growing tendency to provide direct services by global suppliers of computing solutions, who, so far, have operated in Poland through domestic integrators. The strengthened position of the rival businesses may weaken that of the Company. The Company's activities which are to minimize the above risks involve constant expanding of the offer by the newest technological solutions, raising the qualifications of the staff as well as providing services, whose standard guarantees that the Company is perceived as professional, experienced and reliable.

Risk associated with supplier dependence

The Company has signed partnership agreements with numerous global IT corporations. In most cases, those corporations offer solutions similar in quality, function and price. The Company also cooperates with many domestic distributors of IT products. As a result, most of the solutions offered by the Company may be based on alternative products provided by different suppliers. However, part of the company's offer is based on products that are unique. The need to use particular manufacturer's products may sometimes be determined by specific requirements of a client. If the Company ceased to cooperate with particular corporations in the IT sector, it could lose the opportunity to sign certain agreements.

Risk associated with large customer dependence

According to the strategy of the Company's commercial operations, large part of the Company's activities is based on regular, long-standing and extensive IT services provided to large businesses. The strategy involves unquestionable benefits but also the risk that, in case of losing certain important customers, the Company will face a temporary reduction of revenues or even the need to reorganize certain areas of its activity. To minimize this risk, the Company tries to increase the number of its key customers and generate part of its revenues by cooperating with many small contractors.

The risk associated with providing solutions and services of crucial importance for the customers' business activities

The Company's customers deem a considerable number of the solutions and services provided by Talex highly important for business processes. Any defects in the solutions provided by the Company or inappropriate implementation of the services offered may lead to considerable losses on the part of the customer or, in some cases, make it impossible for the customer to conduct their basic business activities. In such cases, the Company may have to pay the financial penalty and damages specified in the

agreements and lose some of its customers. To minimize this risk, the Company includes provisions of its limited liability in the agreements and signs insurance agreements with insurance companies.

The risk associated with losing key employees

Given the open job market in the countries of Western Europe as well as the growing demand for the ICT experts in the foreign businesses operating in Poland, the Company may lose many of its highly qualified employees. If the Company lacked employees with specialist qualifications, it could lose some of its certificates and entitlements. Also, the standard of the services provided by the Company could fall. Therefore, the Company offers a variety of incentives, both financial and non-financial, for example, specialist training courses on the newest information technologies, where employees can improve their qualifications. As a result, the Company has not marked any significant loss of its indispensable experts for the last couple of years.

Basic products, goods and services

The sales of products and goods comprised 47% of total sales in the first six months of 2017. Their dynamics of this group equalled 116%. The Company managed to keep the level of revenues from the sales of products in the first half of 2017; their dynamics in comparison to the corresponding period in 2016 amounted to 100.04%.

SPECIFICATION	First six months of 2017 (PLN in thds)	First six months of 2016 (PLN in thds)	Fluctuation
Revenues from sales of products	24,584	24,574	100.04%
Revenues from sales of goods and materials	22,008	18,459	116.09%

Installation and maintenance of IT environment services (40.44%) comprised the largest share of the sales of services, where at the same time the highest increase of sales was recorded. Subsequently, Data Center related services including collocation, hosting, and providing the availability of infrastructure and software (20.28%), outsourcing of IT services (18.31%), and software related services (17.8%). In subsequent years the Company will further develop the sale of Data Center services but also the services related to broadly understood services of applications and IT equipment as well as installation and configuration of IT equipment which is the result of the agreements signed by Talex for this kind of services.

SPECIFICATION	First six months of 2017 (PLN in thds)	First six months of 2016 (PLN in thds)	Fluctuation
Installation and maintenance of IT environment services	9,942	8,324	119.44%
Data Center services	4,987	5,086	98.05%
Outsourcing of IT services	4,501	4,909	91.69%

Software related services	4,397	5,204	84.49%
IT integration	551	829	66.47%
Other services	206	222	92.79%
TOTAL NET REVENUES FROM SALES OF PRODUCTS	24,584	24,574	100.04%

The fluctuation rate of the revenues from sales of goods and materials equalled 116.09% at the end of 1st half of 2017 and almost entirely relates to wholesale of computers, peripheral equipment and software.

SPECIFICATION	First six months of 2017 (PLN in thds)	First six months of 2016 (PLN in thds)	Fluctuation
- wholesale of computers, peripheral equipment and software	22,002	18,951	116.09%
- remaining out-of-shop retail sales	6	6	100.00%
TOTAL NET REVENUES FROM SALES OF GOODS AND MATERIALS	22,008	18,957	116.09%

Markets and sources of supply

In 2017, the Company sold goods and products only on the Polish market but also abroad as it happened in the previous year. The Company's revenues from foreign sales in 2016 came from the activities in the Czech Republic.

Sales revenues by geographical location:

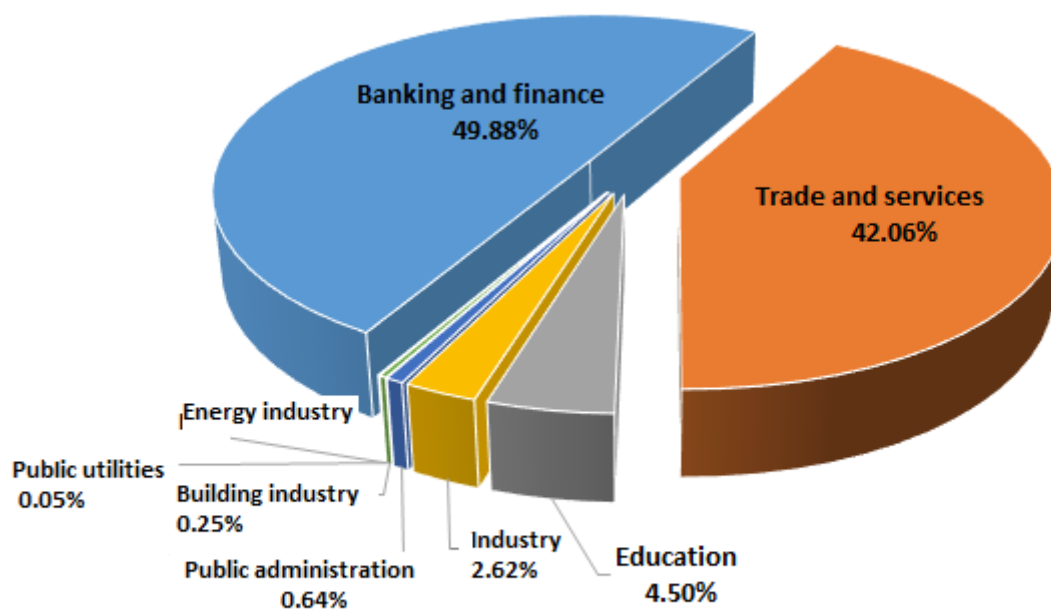
SPECIFICATION	First six months of 2017 (PLN in thds)	First six months of 2016 (PLN in thds)	Fluctuation
Net revenues from sales of products:	24,584	24,574	100.04%
Poland	24,584	24,574	100.04%
Export	0	0	0.00%
Net revenues from sales of goods and materials:	22,008	18,957	116.09%
Poland	22,008	18,957	116.09%
Export	0	0	0.00%
NET REVENUES FROM SALES OF PRODUCTS, GOODS AND MATERIALS	46,592	43,531	107.03%

The biggest recipients of the Company:

RECIPIENTS	First six months of 2017
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	PLN in thds	%
BZWBK Group	13,348	28.65%
EUROCASH S.A.	10,027	21.52%
Credit Agricole Bank Polska S.A.	4,133	8.87%
Powszechna Kasa Oszczędności Bank Polski S.A.	2,645	5.68%
Tree IT Sp. Z o.o.	2,134	4.58%
ING Group	1,865	4.00%
Poznan University of Technology	1,730	3.71%
Allegro Group Sp. Z o.o.	1,684	3.61%
TERG S.A.	1,148	2.46%
The Bank New York Mellon Poland Sp. z o.o.	836	1.79%
Other	7,042	15.11%
TOTAL	46,592	100.00%

The structure of sales revenues in the first half of 2017, by sectors of sale.



Pie chart: sales structure in the first six months of 2017, by sectors of sales:

49.88%	banking and finances
42.06 %	trade and services
4.50 %	education
2.62 %	industry
0,64 %	public administration
0.25 %	building industry
0.05 %	public utilities
	energy

Main suppliers of the Company:

SUPPLIERS	First six months of 2017	
	PLN in thds	%
S4E S.A.	7,650	24.94%
HP Inc Polska Sp. z o.o.	3,760	12.26%
DELL Sp. z o.o.	2,626	8.56%
Avnet Sp. z o.o.	1,877	6.12%
ALSO Polska sp. z o.o.	1,214	3.96%
RRC POLNAD Sp. z o.o.	1,137	3.71%
PGE Obrót S.A.	855	2.79%
AB S.A.	722	2.35%
Olprint Sp. z o.o.	696	2.27%
ABC DATA S.A.	646	2.11%
BZ WBK Leasing SA	630	2.05%
WENDEX Mieczysław Wendland	565	1.84%
Others	7,769	25.33%
TOTAL	30,673	100.00%

The Company is not dependent on the suppliers to any great extent. In particular, goods and products purchased by the Company from suppliers trading with whom comprises the turnover of approximately 10% of the total value of supplies, can be purchased from alternative distributors on similar purchase terms.

The Company does not have any formal relations, other than commercial settlements, with recipients or suppliers whose share exceeds 10% of the total sales income.

Information on agreements significant for the issuer's activity

- On 20 March 2017 the Company concluded the agreement with the Board of the Wielkopolska Region which functions as an Institution in charge of Management of the Wielkopolska Regional Operational Programme for the years 2014-2020. The subject of the agreement is the subsidy to the Company's project entitled „Development of theoretical foundations and a prototype of a hybrid decision-making and rating system.” The maximum value of the grant amounts to PLN 2.49 million. The funding has been granted to the Company within the framework of the Wielkopolska Regional Operational Programme for 2014-2020 (priority axis 1 „Innovative and competitive economy”, Action: 1.2 „Enhancing the innovative potential of enterprises in Wielkopolska region”).
- On 28 April 2017 the Company concluded the agreement with Eurocash S.A. with its registered office in Komorniki. The subject of the agreement is the delivery of IT solutions. The net value of the agreement, expressed in convertible foreign currencies, translated into Polish zlotys amounts to PLN 9 milion.
- On 28 April 2017 the Company established a mortgage up to the total amount of PLN 7.5 million in favour of Powszechna Kasa Oszczędności Bank Polski S.A. headquartered in Warsaw (Bank). The mortgage was established by means of a declaration of the Management Board of the Company pursuant to Article 95 of the Act of 29 August 1997 on the Banking Law (Journal of Laws of 2016, item 1988, as amended). The mortgage was established on the owned by the Company real estates, located in Poznan at Karpią street and built up with office and technical office buildings (i.e. plot no. 508, with a surface of 14,774 m2 and plot no. 517 with a surface of 5,282 m2), entered in the land and mortgage registers

maintained by the District Court Poznań - Stare Miasto in Poznań, V Land and Mortgage Register Division. This mortgage serves as collateral for the credit agreement in current account with the limit on bank guarantees; the credit was granted to the Company by the Bank in the amount of PLN 5 million.

In the first half of 2017 the Company continued to realize a number of orders obtained from its strategic customers from banking and financial sector. Moreover, the Company received a number of further orders, about which Talex informed in the current report:

- In the period from 21 December 2016 (publication of the current report No. 21/2016) to the day of the issue of this report, the Company obtained a number of further orders from Bank Zachodni WBK S.A. with its seat in Wrocław. The total net value of the received orders is PLN 4.99 million. The largest of these orders is the order of April 2017 with the net value of PLN 172 thousand. The subject of the order is the delivery of IT solutions.

Information on credit and loan agreements

On 30 May 2017 the Company signed the investment credit agreement provided by Bank Zachodni WBK S.A. to the Company in the amount of PLN 7.15 million gross for the realization of the project entitled "Creation of IT Centre providing modern services" (publication of the current reports No. 24/2013 and 3/2016). On 13 July 2016 the value of the investment credit agreement was increased by the Annex to the agreement by PLN 2.2 million.

Information on loans, sureties and guarantees granted

The Company has the contingent liabilities under due contract performance guarantees and sureties issued and payment guarantees granted by the funding bank, amount to PLN 1,292 thousand. Those liabilities are secured with capped mortgage on the Company's headquarters building.

Contingent liabilities included guarantees on account of advance payment refund, payment guarantees, due contract performance bonds, and bonds on account of warranty and guaranty. Among the guarantees issued as of the day of 30.06.2017r. about 45.9% were advance payment refund guarantees, hedging the amount of money that the Client submits to the contractor for the coverage of the contract performance.

Around 21.3% comprised payment guarantees, the aim of which is to guarantee the timely payment of monetary liabilities. Successively, about 20.7% were due contract performance bonds. The purpose of those bonds is to secure the claims which could arise in the case of improper performance of an agreement. Nearly 12.1% as at the last day of June 2016 were the bonds on account of warranty and guarantees.

As a security to the renewed contract on the limit for bank guarantees, granted to the Company by Bank Zachodni WBK SA, the Company created a capped mortgage, established by a notarial deed, up to the amount of PLN 10 million, on account of Bank Zachodni WBK S.A., headquartered in Wrocław. The mortgage was created on the real estate owned by the Company, registered in the Land Register kept by the District Court in Poznań – Stare Miasto in Poznań, under the entry no. KW P01P/00137.699/9. The real estate in question comprises a plot of 14.744.00 sq. meters, with an office building with a total useful area of 2,445.80 m².

Assessment of financial assets management

Information on the assessment of financial assets management has been presented in the "Financial standing" and "Financial risk management" sections.

The Company systematically meets all the incurred liabilities. Liquidity ratios of TALEX S.A. confirm that the enterprise is able to pay its liabilities. For many years the Company has been reaching a proper level of financial liquidity. At the balance sheet date the current ratio amounted to 1.17, whilst the quick ratio equalled 0.08.

Changes in the basic principles of managing the issuer's enterprise

In the reporting period there were no significant changes in the basic principles of managing the Company.

Changes in the composition of members of the Management and Supervisory Boards of the Company

In the reporting period there were no significant changes in the composition of people in charge of the Company.

Agreements signed between the issuer and the managing persons, providing for a compensation for the latter in case of their resignation or dismissal

The Company did not sign any agreements with the managing persons, providing for a compensation for the latter in case of their resignation or dismissal.

Shares of the issuer and shares of the related entities, held by the managing and supervising persons

Total number and nominal value of the shares of the Company

Issue	Number of shares	Nominal value (PLN)	Total value (PLN in thds)
Total	3,000,092	1	3,000
Series A	102,000	1	102
Series B	849,000	1	849
Series C	450,000	1	450
Series D	889,092	1	889
Series E	710,000	1	710

The members of the Management Board held the following shares of the Company:

Shareholder	Number of shares					
	Series A	Series B	Series C	Series D	Series E	Total
Janusz Gocałek	34000	283000	145216	293340	-	756556
Jacek Klauziński	34000	283000	145216	293340	-	755556
Andrzej Rózga	34000	283000	145216	293340	-	756556
Rafał Szalek	-	-	-	-	889	889
Andrzej Kurc	-	-	-	3036	-	3036

To the best of the Management Board's knowledge, the members of the Supervisory Board do not hold any shares of the Company.

Shareholders holding, directly or indirectly, through controlled entities, at least 5% of the total votes in the General Meeting of the issuer

Shareholder's name	Number of shares	Share (%) in the capital	Number of votes	Votes (%) in the General Meeting of Shareholders
Total	3,000,092	100.00	3,408,092	100.00
Janusz Gocałek	756,556	25.22	892,556	26.19
Jacek Klauziński	756,556	25.22	892,556	26.19
Andrzej Różga	756,556	25.22	892,556	26.19

FAMILIAR S.A., SICAF-SIF

spółka prawa Wielkiego

Księstwa Luksemburga

190.822*

7.58

190.822*

5.60

* the number of shares and the number of votes resulting from the shares, as at 25.04.2016, on the basis of the list of Shareholders entitled to the participation in the Ordinary General Meeting of Shareholders that took place on 11 May 2017.

Information on the agreements known to the issuer, which may result in future changes in the present structure of share ownership in terms of shares held by current shareholders and bondholders

Management Board of the Company do not know any agreement which could result in future change in the proportion of shares held by existing shareholders. The Company does not emit bonds.

Information on holders of securities which entitle to special supervisory powers over the issuer

The Company did not issue any securities which entitle to special supervisory powers over the issuer.

Information on the system of controlling the employee share ownership schemes

The Company did not issue any employee shares.

Information on the limitations related to the transfer of ownership rights to the securities of the issuer and the exertion of voting rights in relation to the shares of the issuer

Only the shares of series A, B and D are subject to the limitation of the transfer of ownership rights. They are the registered shares and the shares of series A are preference shares regarding the voting right. The terms of conversion of those shares into bearer shares as well as of their disposal have been defined in par. 8 of the Company's Articles of Association. The shares of the Company are not limited as to the exertion of voting rights.

Information on agreements with an entity authorized to audit financial statements

On 30 May 2017 the Supervisory Board, acting under the Articles of Association of the Company, passed a resolution on the selection of the PKF Consult Sp. z o.o. registered in Warsaw at ul. Orzycka 6 lok. 1B (02-695), as an entity with which the contract will be signed on auditing the financial statements compiled on 30 June 2017 and 30 June 2018 and reviewing the financial statements prepared as at 31 December 2017 and 31 December 2018. The selected entity is recorded in the register of entities authorized to audit financial statements under the No. 477 kept by the National Council of Statutory Auditors.

The total net value of auditors' remuneration amounted to PLN 66.000,00.

In the first half of 2017 the Company did not use the services of tax advisory.

Organization of the capital group of the issuer with the indication of the units subject to consolidation

The Company is not a member of the capital group.

Indicating the results of structural changes in the economic entity, including the results of merging economic entities, takeover or sales of members of the capital group of the issuer, long-term investments, division, restructuring and abandonment of business activity

During the presented period there were no changes in the structure of the economic entity.

Opinion of the Management Board on the feasibility of executing the forecasted results published earlier for a given year in the light of the results presented in the quarterly report in reference to the forecasted results

The board of the Company did not publish the forecast of the financial results for the year 2017.

Pending proceedings before courts, arbitration or public administration authorities

During the past quarter the Company did not commence and it was not a side in any court proceedings or public administration proceedings in relation to any liabilities of the value constituting at least 10% of its equity capital.

Information on conclusion of one or many transactions with related entities by the Issuer or its subsidiary, provided that the value of the transactions (the total value of all transactions concluded since the beginning of the financial year) exceeds the equivalent of EUR 500,000 in PLN

Since the beginning of the financial year, the Company has not concluded any transactions with related entities of total value exceeding the equivalent of EUR 500,000 in PLN.

Information on credit and loans sureties or guarantees granted by the Issuer or its subsidiary, to one entity in total or to its subsidiary, if the total value of existing sureties or guarantees is equal to at least 10% of the equity capital of the Issuer

In the presented period, the Company did not grant any sureties, credit, guarantees or loans of value exceeding 10% of the equity capital of the Issuer.

Other information which, in the opinion of the Issuer, is important for assessing its headcount, assets, financial standing and results, as well as movements therein, and information important to evaluate the fulfillment of the commitments the Issuer made

In the reporting period there were no changes that could have an impact on the personnel, wealth and financial situation as well as on financial results and their changes; there were also no events important to the assessment of the possibilities to fulfil the obligations of the Company.

Factors which, in the opinion of the Issuer, will influence the results of the Issuer at least in the next quarter

The future year's results will be affected by the incomes from executing the agreements with regular, long-term customers of the Company as well as the realization of the unfinished contracts from the previous years.

In the past half of this year the Company continued its activities related to the development of software offered by the Company. At the same time, the Company is making intensive efforts to obtain further large and permanent recipients of IT infrastructure maintenance and support services offered by the Company. In order to achieve these aims TALEX completed a project entitled "Creation of IT Centre providing modern services."

Moreover, on 20 March 2017 the Company concluded the agreement with the Board of the Wielkopolska Region which functions as an Institution in charge of Management of the Wielkopolska Regional Operational Programme for the years 2014-2020. The subject of the agreement is the subsidy to the Company's project entitled „Development of theoretical foundations and a prototype of a hybrid decision-making and rating system.” The maximum value of the grant amounts to PLN 2.49 million. The funding has been granted to the Company within the framework of the Wielkopolska Regional Operational Programme for 2014-2020 (priority axis 1 „Innovative and competitive economy”, Action: 1.2 „Enhancing the innovative potential of enterprises in Wielkopolska region”).

The Company intends to finance its planned current purchases with its own funds. The schedule for the current purchases was arranged so that their implementation will not affect the Company's liquidity or bring about strained financial condition.

Information on the rules of preparing the abridged semi-annual financial statement

Information on the rules of preparing the abridged semi-annual financial statement is included in the attachment to this report.

Poznan, 25 August, 2017

Members of the Management Board:

Janusz Gocałek.....

Jacek Klauziński.....

Andrzej Rózga.....

Rafał Szałek.....

Radosław Wesółowski