Talex S.A.
Annual Report 2018

March 2018

Company Information

Company Name :	TALEX Spółka Akcyjna
Registered Office :	61 – 619 Poznań, ul Karpia 27D
Phone Number :	(061) 8 275 500
Fax :	(061) 8 275 599
Taxpayer Registration Number :	782 – 00 – 21 - 045
Company Registration Number:	004772751
PKD :	5184

Branches

Currently, the Company has thirteen branches:

- Talex Białystok, ul. Ogrodowa 31;
- Talex Bielsko-Biała, ul. I Dywizji Pancernej 45;
- Talex Gdynia, ul. Chwarznieńska 170b;
- Talex Katowice, ul. Aleja Walentego 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. Powstań Listopadowych 3;
- Talex Szczecin, ul. Pomorska 53;
- Talex Toruń, ul. Włocławska 167;
- Talex Warszawa, ul. Olbrachta 94;
- Talex Wrocław, ul. Bierutowska 57/59;
- Talex Zielona Góra, ul. Szczekocińska 27.

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 visualisation, 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.

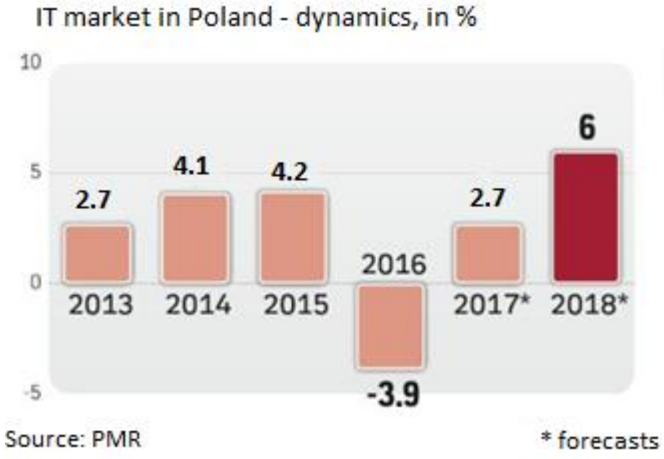
A special outsourcing service offered by the Company are rollouts – mass upgrades of ICT infrastructure for large customers, especially those with branches across the whole country. Talex S.A. has specialised in such activities, having performed many rollouts, for example, in three leading Polish banks.

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, as a result of which they obtained certificates confirming their qualifications in the field of the newest technologies.
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 certificate, which confirms that the procedures followed by the Company guarantee full security of information and customers' data, as well as ISO 20000:2011 certificate, which confirms that the management of IT services, in particular the provision of IT services in the installation, relocation, expansion, change, and removal of hardware and software, and the break and fix of hardware and software for business partners of the Company, is in compliance with international standards.

IT market in Poland and prospects for the development of the Company

Polish IT market is expected to maintain its positive growth dynamics in the years 2016-2021. According to PMR, in 2018 is forecast to grow at the level of 6%.



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.

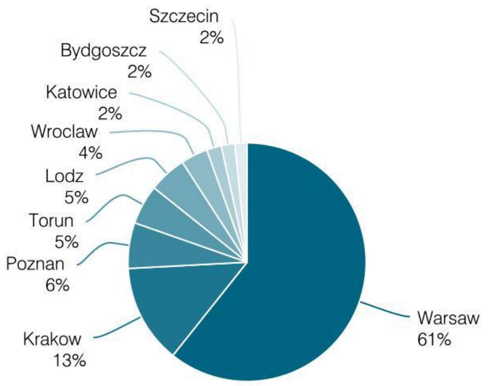
In contrast, in IDC's opinion, outsourcing services whose share in the IT services market in 2013-2018 is expected to increase from 18.8% to 21.9% will have higher growth rates. The most dynamic growth will be noted in the services of hosting of infrastructure and client application management, which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

Also, according to the ITwiz Best 100 report, currently the biggest share of cloud solutions in Poland is held by SaaS solutions (67%), followed by IaaS (23%) and PaaS (10%). In the case of IaaS and PaaS models that provide cloud computing solutions, local companies having their own data centers, which are also owned by Talex, still have an advantage in Poland.

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 the latest PMR report "Data centre market in Poland 2016. Market analysis and development forecasts for 2016-2021," the value of the domestic data center market increased by 15% last year. At the same time, the data center area increased by more than 10,000 meters, including both server space and the entire infrastructure necessary for the operation of the facilities.

Shares of different cities in commercial service space supplied by the top 30 data centres in Poland (%), January 2016



Note: N=30.

Source: PMR, 2016

www.pmrpublications.com

Although the preferences of the largest IT customers in Poland are still often shaped by the desire to possess their own physical infrastructure, the trend of moving from owning assets to using services is slowly becoming more visible and continuing in recent years. The change in the way enterprises operate translates into processes within the organisation, human resources and IT systems supporting business management. Cloud storage, mobility and the Internet of Things have long been known as breakthrough technologies. Today, cloud storage and mobile solutions are becoming completely natural, so everything indicates that SaaS (Software as a Service) will become such a ubiquitous model that soon every software will be delivered over the cloud, regardless of its purpose and functionality.

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.

The entry into force of a new regulation concerning data protection - RODO/GDPR, has caused some confusion. It is estimated that because of that in the period from 2017 to 2018 organisations and companies in Europe will spend about $9 billion. This amount will be spent on security and storage systems and will translate into a significant increase in the sale of software and the necessary infrastructure

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 2017 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.

Expenditures on fixed asset of the Company in 2017

In 2017, the Company incurred a total expenditure on tangible fixed assets and intangible assets in the amount of PLN 3,030 thousand.

SPECIFICATION	Expenditures incurred in 2017 (PLN in thds)	Plans for 2017 (PLN in thds)

Office building A and B	20	0
Modernization of Data Center building	71	0
Purchase of technical equipment and machinery	829	500
Purchase of means of transport	1,127	300
Purchase of other fixed assets	396	100
Intangible assets (software)	141	100
Investment in foreign fixed assets	446	100
TOTAL	**3,030**	**1,100**

The Company incurred the largest expenditures on the renewal of the car fleet, purchase of technical equipment and machinery as well as investment in foreign fixed assets.

Plans for increase and maintenance of tangible fixed assets in 2018

Due to the agreements concluded in 2017, the plans for 2018 include primarily expenditures on equipping Data Center and a new location of the Company's branch in Wrocław. Furthermore, the renewal and supplementation of necessary for the provision of services technical equipment is planned.

Specification:

• Equipping Data Center	PLN 3,000 thousand
• Adaptation of property in Wrocław	PLN 2,700 thousand
• Purchase of means of transport	PLN 600 thousand
• Purchase of technical equipment and machinery	PLN 550 thousand
• Intangible assets	PLN 100 thousand
• Other fixed assets	PLN 50 thousand
TOTAL	**PLN 7,000 thousand**

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

Sales revenues and financial result in 2017

In 2017, the Company recorded the sales revenues of PLN 107,897 thousand, with the net profit of PLN 5,731 thousand (in 2016 – PLN 4,720 thousand).

SPECIFICATION	2017 (PLN in thds)	2016 (PLN in thds)	Fluctuation
Revenues from sales of products	53,301	53,217	100.16%
Revenues from sales of goods and materials	54,596	59,820	91.27%

In the reporting period, the revenues from sales were lower by 4.5 than the revenues in the previous year. The revenues from sales of products remained at a very similar level (increase by 0.16% in comparison to 2016), while the revenues of goods and materials decreased by 8.7%.

In the analyzed period the structure of revenues from sales slightly changed. The share of services in sales revenues increased to approximately 49.4%, in the comparable period of 2016 it accounted for approximately 47% of total sales revenues, and the margin on the sale of those services increased. The margin on sales of products accounted for 30.2 %(around 28.6% in 2016).

Revenues from sales of goods and materials accounted for 50.6% of total sales revenues (53% in 2016), and their profitability amounted to about 9.3% (7.1% in 2016). The companies are constantly looking for savings and, according to the research conducted by PMR, the extension of the length of the life cycle of IT equipment becomes already a rule. The average usage time for desktop computers in large companies is 5 years. This is due to the fact that currently the computers of several years are perfectly adequate for normal office work where high computing power is not required. Laptops are used for a period of 3-5 years, and on the average not more than 4 years.

SPECIFICATION	**2017 (PLN in thds)**	**2016 (PLN in thds)**	**Fluctuation**
Net revenues from sales	107,897	113,037	95.45%
Gross profit from product sales	16,101	15,244	105.62%
Gross profit from the sale of goods and materials	5,102	4,243	120.25%
Gross profit (loss) from sales	21,203	19,487	108.81%
Sales costs	3,746	3,724	100.59%
Costs of management	10,372	9,914	104.62%
Profit (loss) from sales	7,085	5,849	121.13%
Profit (loss) from operating activities	7,531	6,465	116.49%
Gross profit (loss)	7,108	5,893	120.62%
Net profit (loss)	5,731	4,720	121.42%

Although the Company had lower net revenues from sales, the higher margin on sales of both services and goods, as well as comparable to that of the previous year level of total costs of sales and general management, were reflected in the gross profit on sales and on other levels of the Company's operations. In connection with the signed and planned contracts, which include both the sale of equipment and services, the Company plans to maintain favourable terms of sale of its products.

Company assets

The annual financial statement compiled as at 31 December 2017 presents the value of assets amounting to PLN 93,347 thousand, which represents 94.8% of the value of assets at the end of 2016.

The value of fixed assets at the end of 2017 amounted to PLN 60,286 thousand and decreased slightly, by PLN 2,914 thousand as compared to the last day of 2016, which was affected mainly by lower expenditures on tangible fixed assets in relation to planned depreciation.

As in the previous year, the fixed assets represents about 64.6% of the value of all assets of the Company(around 64.2% in 2016), wherein the biggest share belong to fixed assets representing over 63% of total assets.

Intangible assets and long-term prepayments and accrued income in both periods were below 1% of total assets.

SPECIFICATION	31.12.2017		31.12.2016	
	(PLN in thds)	% share in the assets	(PLN in thds)	% share in the assets
FIXED ASSETS	**60,286**	**64.58%**	**63,200**	**64.19%**
Intangible assets	478	0.51%	585	0.59%
Tangible fixed assets	59,075	63.29%	61,733	62.70%
Long-term receivables	0	0.00%	0	0.00%
Long-term investments	-	-	-	-
Long-term prepayments and accrued income	733	0.79%	882	0.90%

The value of current assets as at 31.12.2017 amounted to PLN 33,061 thousand and was lower by 6% compared to the value as at the last day of December 2016. The greatest part of the current assets constituted short-term receivables, which were lower by 11% in comparison to 2016.

Current assets in both reported periods account for approximately 35.5% of total assets. This indicator informs about the potential possibilities of the company. The higher the share of this ratio, the higher the company's financial liquidity. Current assets are much easier to convert into cash compared to tangible assets.

In comparison with the previous period the level of stock increased - PLN 1,781 thousand (1.9%) in 2017 in comparison to PLN 891 thousand (0.9%) in 2016.

Despite the decrease in short-term receivables from PLN 26,217 thousand in 2016 to PLN 23,323 thousand in 2017, their share in total assets remained unchanged. Similarly, the share of short-term investments in total assets remained unchanged amounting to 8.16% in 2017, as compared to 7.91% in 2016.

Short-term prepayments and accrued income accounted for less than 0.5% of total assets in both periods.

SPECIFICATION	31.12.2017		31.12.2016	
	(PLN in thds)	% share in the assets	(PLN in thds)	% share in the assets
CURRENT ASSETS	33,061	35.42%	35,183	35.73%
Inventories	1,781	1.91%	891	0.90%
Short-term receivables	23,323	24.99%	26,217	26.63%
Short-term investments	7,618	8.16%	7,785	7.91%
Short-term prepayments and accrued income	339	0.36%	290	0.29%

Overall financial condition of the Company

Selected financial ratios.

Profitability ratios	2017	2016	Desired quantities

Return on sales (ROS) Net profit/sale value *100 (%)	5.31%	4.18%	positive rising
Return on assets (ROA) Net profit/ total assets * 100 (%)	6.14%	4.79%	positive rising
Return on equity (ROE) Net profit/own equity * 100(%)	10.99%	9.51%	positive rising
Corrected profitability of assets Net profit+(financial costs - income tax on interest) /total assets*100(%)	6.86%	5.53%	positive rising
Leverage Profitability of equity – profitability of assets			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	2017	2016	Desired quantities
Financial liquidity ratio I Current assets / short-term liabilities	1.34	1.23	1.2 - 1.8
Financial liquidity ratio II (current assets- inventories)/short-term liabilities	1.27	1.20	0.8 -1.0

The liquidity ratios have been permanently at a high level which is still very safe for the Company. These ratios define the Company's ability to timely regulate its current liabilities. The values of these indicators slightly increased in 2017, yet still fall into an optimal size level. This means that the Company has sufficient amount of funds to pay its liabilities. Higher levels of these indicators shall mean that the Company has a significant excess liquidity. Keeping cash in the amount that allows the coverage of all obligations, regardless of their maturity, would be uneconomical for the company.

Debt ratios	2017	2016	Desired quantities
Overall debt ratio Liabilities and provisions for liabilities/total assets	0.34	0.40	Max 0.5
Long-term debt ratio Long-term liabilities/equity capital	0.14	0.22	Max 0.5-1

Total debt ratio decreased at the end of 2017 compared to the previous year but has been still at a safe level. In addition, the optimal values of the financial liquidity ratios, mostly a high level of short-term receivables and cash held by the Company, 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 the investment loan agreement for financing the investment of the construction of IT Centre.

Management performance indicators	2017	2016	Desired quantities
Receivables turnover ratio Net sales revenues /average receivables	5.99	6.80	7-10
Inventory Cycle Average inventory cycle/ cost of sales *360	6.30	7.07	decreasing
Receivables Cycle Average receivables /cost of sales * 360	60.11	52.98	decreasing
Duration of receivables in days Average trade receivables /cost of sales*360	46.37	44.66	average deadline
Conversion period of working capital into cash Receivables cycle + inventories cycle (in days)	66.41	60.05	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. The reasons for such a situation should be seen in the negative market practices of the customers beyond the company's control.

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 higher level than in 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 44.5 days in 2016 to over 46 days in 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.

Shortening the periods of trade liabilities payments is conducive to obtaining additional discounts and discounts on purchase prices of goods and services.

The analysis of these indicators show the improvement of the overall efficiency of the Company's operations in 2017. Talex has proper indicators to finance operations, including the compliance to the golden rule of balance and finance at the safe level. Good financial liquidity characterizes the Company; the profitability and turnover ratios also remain at a good level.

Financial standing

The Company's shareholders' equity as at 31.12.2017 amounted to PLN 52,138 thousand, which comprised:

- share capital (3,000,092 shares) PLN 3,000 thousand
- reserve capital PLN 44,378 thousand
- net profit/loss for 2017 PLN 5,731 thousand

The Company's standing, in terms of payments, was good in 2017. There were no difficulties with prompt payments of taxes, social insurance or payments to employees and suppliers. The Company paid two instalments of dividend and timely pays the investment credit. Although the cash at hand and on bank accounts decreased in comparison to 2016, the Company's current cash and signed long-term contracts secure the current needs of the Company.

Total liabilities as at 31.12.2017 amounted to PLN 31,772 thousand, which comprised 80% of the shareholders' equity, however, this amount includes also the long-term credit taken by the Company.

At the date of 31.12.2017, 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 for the realization of the project entitled "Creation of IT Centre providing modern services," which was increased by the Annex of 13 July 2017 to the amount of PLN 19.2 million.

In 2017, the Company placed its free assets mainly in fixed-term 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 Company's own shares

As at the day of 31 December 2017 the Company had no own shares.

On 19 December 2017 the Company sold 6,711 own shares at the price of PLN 19.57 per share through transactions outside the regulated market. The treasury shares had been previously acquired by the Company pursuant to Resolution No. 13 of the Ordinary General Meeting of Shareholders of Talex S. A. held on 18 April 2012. In the course of this transaction, the Company could have bought up until 17 March 2017 total of 600,000 own shares, which would constitute 19.99% of the Company's share capital. The company could have purchased shares on the regulated market and over the counter, and the price of the shares could not be lower than 1 PLN and higher than 15 PLN.
In the course of the aforementioned transaction, the Company sold all its own shares. The sold shares constitute 0.22% of the Company's share capital and entitle to 6,711 votes at the Company's General Meeting of Shareholders. As indicated above, the shares were sold at the price of PLN 19.57 per share, while the average purchase price of the indicated own shares, taking into account their price and acquisition costs, amounts to PLN 11.17 per share, i.e. PLN 1 per share.

As indicated above, the shares were sold at the price of PLN 19.57 per share which means that total amount obtained by the Company from the sale of the shares is PLN 131,334.27. The average final purchase price of the indicated own shares, taking into account their price and all the acquisition costs per share, is PLN 11.32, and the total purchase cost of 6,711 own shares was PLN 75,937.84.

Financial risk management

Due to the amount of the Company's cash ensuring timely performance of obligations of the Company, high level of liquidity in the Company stable for a couple of years now, and safe level of receivables in relation to 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 and its use was as at the day 30.06.2017 equal to PLN 9,941 thousand, 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 order to minimize the risk associated with changes in interest rates the Company in July 2017 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.

In 2017 the Company did not use services offered by financing entities, entities hedging exchange rate risk, nor did it purchase any currency. All payments of liabilities in foreign currencies were made by the Company from receivables received from customers in that currency. Payments of liabilities in foreign currencies in the reporting period amounted to approximately PLN 16 million, representing 16.2% of the Company's total liabilities, whereas the receivables received in foreign currencies amount to approximately PLN 18.8 million, i.e. 14.4% of all receivables.

Employment

At the end of 2017, the Company had 361 employees. The average employment in 2017 expressed in full-time jobs equalled 353.95.

Significant risk factors and threats

<u>Risk associated with economic situation</u>

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, reducing the number and value of the Company's orders.
There is a risk that in the near future the IT market will be restless, and the behavior of potential customers hardly predictable. Such a situation can be affected by the economic environment, debt crisis of countries as well as the threat of the economic and euro zone crises return. Enterprises that usually adapt to market conditions may decide to limit investments and adopt a strategy of waiting.

<u>Risk associated with competition</u>

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 the Company 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 goods and materials comprised approximately 50.6% of total sales in 2017. The dynamics of this sales group was equal to 91.27%. The Company reached a similar level of revenues from the sales of goods and materials in comparison to last year – they increased by 0.16% as compared to 2016.

SPECIFICATION	2017 (PLN in thds)	2016 (PLN in thds)	Fluctuation
Revenues from sales of products	53,301	53,217	100.16%
Revenues from sales of goods and materials	54,596	59,820	91.27%

Installation and maintenance of IT environment services (34.3%) and outsourcing of IT services (22.7%) comprised the largest share of the sales of services. The Company recorded the highest sales growth in the area of outsourcing of IT services including services of Backup Office, Help Desk, Service Desk and Monitoring, as well as in the area of services related to installation and maintenance of IT environments. The Company managed to maintain on a similar level as compared to 2016 Data Center services including collocation, hosting, and infrastructure provision.

In subsequent years the Company will further develop the sale of Data Center services, in particular in the new location of the branch in Wrocław, where since the end of 2017 works related to the launch of the new server room of Talex Company have been carried out. The Company also focuses on the development and sale of services in the area of broadly understood maintenance of application, IT devices, and installation and configuration of IT equipment, which is a consequence of contracts signed by Talex for this type of services.

SPECIFICATION	**2017 (PLN in thds)**	**2016 (PLN in thds)**	**Fluctuation**
Installation and maintenance of IT environment services	17,298	17,285	105.9%
Software related services	12,116	12,286	98.6%
Outsourcing of IT services	9,799	9,283	105.6%
Data Center services	9,758	10,356	94.2%
IT integration	2,767	3,566	77.6%
Others	563	441	127.7%
TOTAL	53,301	53,217	100.2%

The fluctuation rate of the revenues from sales of goods and materials equalled 91.3% at the end of 2017 and almost fully concerns the wholesale of computers and peripheral equipment.

SPECIFICATION	**2017 (PLN in thds)**	**2016 (PLN in thds)**	**Fluctuation**
- wholesale of computers and peripheral equipment	54,578	59,098	92.4%
- wholesale of electronic and telecommunication equipment	0	713	-

- other out-of-shop retail sales	18	9	200.0%
TOTAL	54,596	59,820	91.3%

Markets and supply sources

In 2017, the Company sold goods and products only on the Polish market.

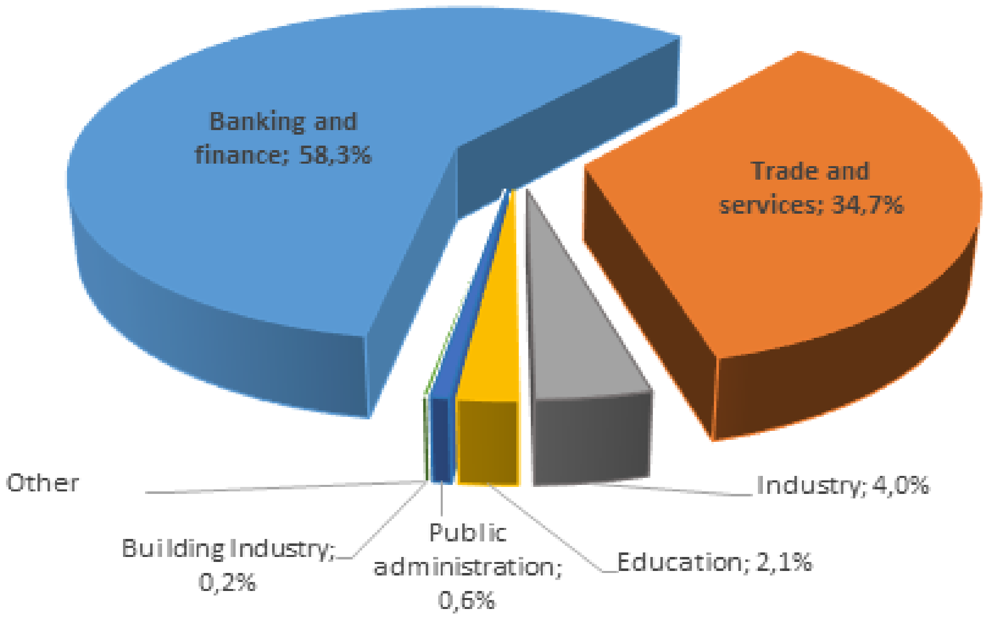
The territorial structure of the sales revenues:

SPECIFICATION	**2017 (w tys. PLN)**	**2016 (w tys. PLN)**	**Fluctuation**
Net revenues from the sale of products:	53,301	53,217	100.2%
Country	53,301	53,217	100.2%
Export	0	0	
Net revenues from the sale of goods and materials:	54,596	59,820	91.3%
Country	54,596	59,820	91.3%
Export	0	0	-
NET REVENUES FROM THE SALE OF PRODUCTS. GOODS AND MATERIALS	107,897	113,037	95.45%

The structure of the greatest recipients of the Company:

RECIPIENTS	***2017***	
	PLN in thds	***%***
Grupa BZWBK	34,755	32.2%
Powszechna Kasa Oszczędności Bank Polski S.A.	12,567	11.6%
EUROCASH S.A.	11,036	10.2%
Tree IT Sp. z o.o.	8,381	7.8%
Credit Agricole Bank Polska SA	8,233	7.6%
Terg S.A.	5,739	5.3%
ING Group S.A.	3,886	3.6%
Grupa Allegro Sp. z o.o.	3,201	3.0%
Volkswagen Group Polska S.A.	2,875	2.7%
Poznan University of Technology	1,729	1.6%
The Bank New York Mellon Poland Sp.z o.o.	1,672	1.5%
Bank Handlowy w Warszawie SA	1,205	1.1%
Bravura Solutions Polska Sp. z o.o.	1,048	1.0%
Others	11,570	10.7%
TOTAL	107,897	100.00%

The structure of revenues according to the market in 2017



Main suppliers of the Company:

SUPPLIERS	2017	
	PLN in thds	%
ALSO Sp. z o.o.	14,411	20.7%
S4E S.A.	11,363,	16.3%
HP Inc Polska Sp. z o.o.	9,459	13.6%
DELL Sp. z o.o.	3,929	5.6%
AB S.A.	2,509	3.6%
WENDEX Mieczysław Wendland	2,413	3.5%
Avnet Sp. z o.o.	1,877	2.7%
PGE Obrót S.A.	1,826	2.6%
ABC DATA S.A.	1,605,	2.3%
BZ WBK Leasing SA	1,256	1.8%
Olprint Sp. z o.o.	1,237	1.8%
RRC POLAND Sp. z o.o.	1,137	1.6%
ENEA Operator Sp. z o.o.	1,041	1.5%
Others	15,700	22.5%
TOTAL	69,763	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 (the turnover with them comprises 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

In 2017 the Company continued to realize the orders from its strategic customers from banking and financial as well as public administration sector. Moreover, the Company received a number of further orders, about which Talex informed in the succeeding current reports:

- On 20 March 2017 the Company signed 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 competetive 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 on 28 April 2017 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 Karpia 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.

- On 11 August 2017 the Company concluded the agreement with TERG S.A. with its seat in Złotów. The subject of the agreement is delivery of IT solutions. The estimated net value of the agreement, expressed in convertible currencies, translated into Polish zlotys constitutes the amount of PLN 4.9 million.

- On 6 November 2017 the Company concluded the agreement with Powszechna Kasa Oszczędności Bank Polski S.A. with its seat in Warsaw. The subject of the agreement is delivery of computer equipment. Under the agreement the Company received an order, the estiamted net value of which, expressed in convertible currencies, translated into Polish zlotys constitutes the amount of PLN 6.9 million.

- On 8 December 2017 the Company concluded the agreement with PKP Energetyka Centrum Usług Wspólnych Sp. z o.o. with its seat in Łódź. The subject of the agreement is provision of IT solutions. The estimated net value of the agreement in the period of 3 years is PLN 3 million.

In 2017 the Company continued to execute orders received from strategic clients from the banking, financial and public administration sectors. Moreover, the Company received a number of orders from its regular customers, about which Talex reported in subsequent current reports:

- In the period from 21 December 2016 (publication of the current report No. 21/2016) to 19 May 2017 (publication of the current report No. 13/2017) 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 was the delivery of IT services.

- In the period of twelve months up until 9 August 2017 (publication of the current report No. 16/2017) the Company obtained a number of further orders from Tree IT Sp.z o.o. with its seat in Kościelna Wieś. The total net value of the received orders is PLN 5.18 million. The largest of these orders is the order of September 2017 with the net value of PLN 115 thousand. The subject of the order was the delivery of computer equipment.

- In the period from 19 May 2017 (publication of the current report No. 13/2017) to 25 September 2017 (publication of the current report No. 19/2017) 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 4.91 million. The largest of these orders is the order of September 2017 with the net value of PLN 370 thousand. The subject of the order was the delivery of computer equipment.

- In the period from 12 October 2016 (publication of the current report No. 16/2016) to 2 October 2017 (publication of the current report No. 20/2017) the Company obtained a number of further orders from Credit Agricole Bank Polska S.A. with its seat in Wrocław. The total net value of the received orders is PLN 4.78 million. The largest of these orders is the order of December 2016 with the net value of PLN 460 thousand. The subject of the order was the delivery of IT solutions.

- In the period from 25 September 2017 (publication of the current report No. 19/2017) to 23 November 2017 (publication of the current report No. 23/2017) 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 4.94 million. The largest of these orders is the order of October 2017 with the net value of PLN 1.21 million. The subject of the order was the delivery of IT solutions.

- In the period from 23 November 2017 (publication of the current report No. 23/2017) to 14 November 2017 (publication of the current report No. 25/2017) 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 5.7 million. The largest of these orders is the order of November 2017 with the net value of PLN 478 thousand. The subject of the order was the delivery of computer equipment.

Moreover, in the presented period, the delivery of the maintenance as well as outsourcing services specified in the agreements with the Company's clients, mainly from the banking and financial sector as well as the public sector, was continued.

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 2017 the

Company signed the Annex to this agreement that increased the credit incurred to the amount of PLN 2.2 million.

Information on loans, sureties and guarantees granted

The contingent liabilities of the Company, due to performance bonds and payment securities issued by the financing bank, amounted to PLN 981 thousand. Those liabilities are secured with capped mortgage on the Company's headquarters building.

Contingent liabilities included performance bonds, bid bonds, bonds on account of warranty and guarantee, payment guarantees and guarantees on advance payments. Advanced payment guarantees comprised about 60.6% of the guarantees issued on 31.12.2017. Almost 18.9% were performance bonds. The purpose of those bonds is to secure the claims which could arise in the case of improper performance of an agreement. Payment guarantees represented approximately 11.4%, the purpose of which is to guarantee the timely payment of monetary liabilities. Around 9.2% of all guarantees issued on the last day of December 2017 were bonds on account of warranty and guarantee.

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 Wroclaw. The mortgage was created on the real estate owned by the Company, registered in the Land Register kept by the District Court in Poznan – Stare Miasto in Poznan, 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 of the usable area of 2.445.80 sq. meters.

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. The current ratio equalled 1.34 at the balance sheet date, while the quick ratio equalled 1.27.

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

Members of the Management Board held the following shares of the Company (as at the day of preparing this report):

Shareholder	Number of shares					
	Series A	Series B	Series C	Series D	Series E	Total
Janusz Gocałek	34,000	283,000	145,216	294,340	2,237	756,556
Jacek Klauziński	34,000	283,000	145,216	294,340	2,237	756,556
Andrzej Rózga	34,000	283,000	145,216	294,340	2,237	756,556
Rafał Szałek	-	-	-	-	889	889
Andrzej Kurc	-	-	-	1,012	-	1,012

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	758,793	25.29	894.793	26.25
Jacek Klauziński	758,793	25.29	894.793	26.25
Andrzej Rózga	758,793	25.29	894.793	26.25

FAMILIAR S.A., SICAF-SIF spółka prawa Wielkiego Księstwa Luksemburga	190,822	7.58	190.822*	5.60

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

The Company does not have any information on the agreements, which may result in future changes in the present structure of share ownership in terms of shares held by current 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, being registered shares, are subject to the limitation of the transfer of ownership rights. Additionally, 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 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 31 December 2017. 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 remuneration for the performance of the agreement with PKF Consult will amount to PLN 66,000.00.

In 2017 the Company did not use the tax advisory services.

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 Management 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

In the past half-year, 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.

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

Factors that affect the results of the Company with a view to the next year are mainly the fulfilment of the agreements concluded with the regular, long-term customers of the Company as well as the realization of the contracts from the previous years, including, among others, Poznan University of Technology.

In the past 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. To achieve these aims TALEX completed the project entitled "Creation of IT Centre providing modern services."

Furthermore, on 20 March 2017 the Company concluded 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 competetive economy", Action: 1.2 „Enhancing the innovative potential of enterprises in Wielkopolska region").

The Company intends to finance the planned current purchases with its own funds. The schedule for the current purchases was arranged so that their implementation does not affect the Company's liquidity nor affect its financial standing.

Information on the rules of preparing the annual financial statement

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

Poznan, 5 March 2018

Members of the Management Board:

Janusz Gocałek.....................................

Jacek Klauziński......................................

Andrzej Rózga...

Rafał Szałek...

Radosław Wesołowski................................