REPORT ON THE ACTIVITY OF THE SUPERVISORY BOARD IN 2017 AND ASSESSMENT OF THE COMPANY AND THE MANAGEMENT ACTIVITY IN 2017

In 2017, the Supervisory Board of Talex S.A. performed their functions in an uninterrupted way in accordance with the respective law regulations, particularly with the code of commercial companies and of the Articles of Association of the Company.

The Supervisory Board for the current term of office was established by the General Meeting of Shareholders of Talex S.A. held on 25 April 2013. On the same day, after the closing of the General Meeting of Shareholders, the Members of the Supervisory Board at its meeting appointed Mrs. Bogna Pilarczyk as its President. The term of office of the present Supervisory Board expires on the day of the Ordinary General Meeting of Shareholders approving the financial statements for 2017.

As at 31 December 2017 the Supervisory Board of the Company consisted of:

- Grzegorz Ganowicz,
- Andrzej Kurc,
- Marek Nawrocki,
- Jacek Nowak,
- Bogna Pilarczyk.

In the described period, there were no changes in the composition of the Supervisory Board. The majority of the Supervisory Board members meets the criteria of independence.

On 25 April 2013 the Supervisory Board in their field of competence appointed the Management Board of the Company. By way of resolution the following composition of the Management Board of Talex S.A. was selected:

- Janusz Gocałek - President of the Management Board,
- Jacek Klauziński - Vice President of the Management Board,
- Andrzej Rózga - Vice President of the Management Board,
- Rafał Szałek - Member of the Management Board,
- Radosław Wesołowski – Member of the Management Board.

As at the day of 31 December 2017 the composition of the Management Board was identical as in the day of its appointment. The term of office of the present Maagement Board expires on the day of the Ordinary General Meeting of Shareholders approving the financial statements for 2017.

In 2017, during cyclic meetings, the Supervisory Board evaluated the situation of the Company and made necessary decisions by resolutions.

At the meeting on 1 February 2018 the Supervisory Board carried out a preliminary assessment and analysis of the financial results achieved by the Company in 2016 and adopted the resolution to grant bonuses from the achieved results to the members of the Management Board. On 28 March 2017 the Supervisory Board adopted a resolution on the adoption of the financial statements and the Report of the Management Board on the activity of the Company in 2016, as well as approved the scope and agenda of the General Meeting of Shareholders held on 26 April 2017, and carried out the analysis of the performance of the corporate governance rules in the Company, referring to the document „Good Practices of Companies listed in the Stock Exchange." On 29 March 2018 the Supervisory Board accepted the document the Report on the activity of the Supervisory Board of the Company in 2016 as well as the assessment of the Company's situation and the activity of the Management Board in 2016.

On 10 April 2017 the Supervisory Board, in the exercise of its powers, on the basis of an authorisation given by the Ordinary General Meeting of Shareholders, by way of a resolution, granted consent to the establishment of a joint mortgage on the company's real property in favour of PKO BP S.A.

At the meeting on 30 May 2017 the Supervisory Board, exercising its powers due to relevant provisions of the Company's Articles of Association, adopted the resolution on the appointment of PKF Consult Sp. z o.o. sp. k. headquartered in Warsaw at ul. Orzycka 6 lok. 1B (02-695), entered in the register of entrepreneurs kept by the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register under the KRS No. 579479, and entered in the register of entities authorized to audit financial statements under number 477, as the entity with which the contract will be signed on auditing the financial statements of the Company compiled on 30 June 2018 and 31 December 2018.

On 19 September 2017, the Supervisory Board, in the execution of the generally applicable legal regulations, and in particular the provisions of the Act of 11 May 2017 on certified auditors, audit firms and public supervision (Journal of Laws 2017, item 1089), including Art. 128 (1) of the aforementioned Act, appointed an Audit Committee. The term of office of the appointed Audit Committee shall come to an end as of the day of the General Meeting of Shareholders that discharge authority to the Supervisory Board currently in office. The Supervisory Board established the composition of the Audit Committee to include five persons and simultaneously appointed all the Members-in-office of the Supervisory Board to the Audit Committee, and appointed the Chairman of the Audit Committee.
At the same time, the Supervisory Board decided that as of the date of adoption of the resolution, the Supervisory Board ceased to perform the duties of the Audit Committee within the meaning of the repealed provisions of law. At the same meeting, the Supervisory Board analyzed and summarized the Company's financial results achieved in the first half of the financial year 2017.

At the meeting on 24 November 2017 the Supervisory Board in execution of the provisions of Resolution No. 13 of the Ordinary General Meeting of Shareholders of Talex S.A. held on 18 April 2012, and in accordance with the request of the Management Board in this respect, decides to accept the purpose of acquiring the Company's own shares carried out on the basis and within the limits of the authorization granted by the above mentioned Resolution of the General Meeting of Shareholders. On 7 December 2017 the Supervisory Board decided to accept the Management Board's proposal to sell all of the Company's own shares through transactions outside the regulated market. As at 31 December 2017, the Company did not hold any treasury shares because on 19 December 2017, by way of transactions outside the regulated market 6,711 treasury shares were sold at a price of PLN 19.57 per share at the Company's request. The own shares in question were previously acquired by the Company on the basis of the aforementioned Resolution of the General Meeting of Shareholders. Pursuant to the authorization of the General Meeting of Shareholders, the Company was able to purchase a total of 600,000 own shares by 17 March 2017, which would constitute 19.99% of the share capital. The Company could purchase 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 disposed of 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. The nominal value of the sold own shares is PLN 6,711, i.e. 1 PLN per share. As indicated above, the shares were sold at a price of PLN 19.57 per share, which means that the total amount obtained by the Company from the sale of the said shares amounts to 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.

The Supervisory Board carried out the annual analysis of corporate governance rules carried out in the Company, referring to the document „Good Practices of Companies listed in the Stock Exchange in 2016." In the Supervisory Board's evaluation, those rules were implemented in their entirety with the following exceptions, which occurred only incidentally:

- principle No. I.Z.1.16, which was violated only incidentally: on 26 April 2017 the Ordinary General Meeting of Shareholders took place. The above mentioned principle was not fully implemented because the Company does not record the course of the proceedings of the General Meetings, and therefore it does not publish such recording on its website during the time of the Meeting. Derogation from this principle is justified by a low interest of the Company's Shareholders in the participation in the General Meeting. Over the past few years the number of the Shareholders did not exceed a few people the majority of whom were the Company's Management members.
- principle No. I.Z.1.20, which was violated only incidentally: on 26 April 2017 the Ordinary General Meeting of Shareholders took place. The above mentioned principle is not fully implemented because the Company does not record the course of the proceedings of the General Meetings and therefore does not make such recordings available on its website. Derogation from this principle is justified by a low interest of the Company's Shareholders in the participation in the General Meeting. Over the past years the number of Shareholders did not exceed a few people the majority of whom were simultaneously the Company's Management members.
- Principle No. IV.Z.16., which was violated only incidentally: on 26 April 2017 the General Meeting of Shareholders of the Company adopted the resolution on the division of profit for 2016. According to this resolution, the dividend was paid in two equal instalments. This decision was due to a rational policy of the Company in its financial sector in connection to the ongoing investments. One time derogation from this principle relates only to the date of payment of the second instalment of dividend because the period between the date of setting the right to dividend and the date of dividend payment is longer than 15 working days.

Furthermore, the Supervisory Board noted that the Company together with the change in the presentation of data on its website made every effort and continues to ensure that the recommendations and principles contained in the abovementioned congregation are fully respected by the Company.

As indicated above, the Supervisory Board, fulfilling the law regulations, decided by the adoption of resolution of 29 December 2009 to delegate tasks of the audit committee to the Board. This decision was made due to the minimum number of Board's members (that is 5 persons). The Supervisory Board, performing the tasks of the audit committee, continuously monitored and analysed the current economic and business situation of the Company. Pursuant to the resolution of 19 September 2017, the Supervisory Board discontinued the performance of the aforementioned tasks upon the appointment of the Audit Committee in accordance with the scope of regulations specified in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws of 2017, item 1089). During the past year, the Board also held a series of meetings, including a meeting with the Key Auditor, the Management Board, the Chief Accountant and key employees. The Supervisory Board in the self-assessment of its work, expresses its deep conviction that its operation is in full compliance with generally applicable laws, regulations designated as soft law, the Company's Articles of Association, and the actual needs of the Company as well as in the legitimate interests of its Shareholders.

In 2017 the Company generated sales revenues in the amount of PLN 107,897 thousand with a net profit of PLN 5,731 thousand (net profit achieved in 2016 was PLN 4,720 thousand). In that period, sales revenues were about 4.5% lower than in the previous year. Revenues from the sale of products remained at a very similar level (increase by 0.16% in comparison to 2016), whereas the sale of goods and materials decreased by about 8.7%. In the analyzed period, the structure of sales revenues slightly changed. The share of services in sales revenues increased and amounted to approx. 49.4%; in the comparable period of 2016 they accounted for around 47% of total sales revenues, while the margin on sales of these services increased. The margin on the sale of products amounted to 30.2% (around 28.6% in 2016). The Company recorded lower net sales revenues. However, higher margins on both sales of services and sales of goods, as well as the level of total sales costs and general and administrative expenses, comparable to last year, were reflected in the gross profit on sales and on other levels of the Company's activity.

The annual financial statements as at 31 December 2017 present the value of assets in the amount of 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 also slightly decreased by PLN 2,914 thousand in comparison to the amount at the end of 2016. The decrease in the value was mainly affected by the lower expenditure on tangible fixed assets in reference to scheduled depreciation.

The economic ratios for the Company indicate its systematic development based on a long-term provision of a favorable financial situation. The Company's standing in terms of payments was good in 2017. There were no difficulties with timely payments of taxes, social insurance or payments to employees and suppliers. The Company paid both instalments of the dividend as well as has timely paid the instalments of the investment credit.

Among the main recipients of the Company’s offer are: BZ WBK Group (over 32%), Powszechna Kasa Oszczędności Bank Polski (over 11%), Eurocash S.A. (around 10%), Tree IT Sp. z o.o. (nearly 8%), Credit Agricole Bank Polska S.A. (over 7%), and Terg S.A. (over 5%).
Among the specified clients, the deepening cooperation with PKO BP S.A. is worth noting - the bank's share in the sales for 2017 was four times higher than in the previous year. The banking and finance sector provides over 58.3% of the Company’s revenues, while trade and services account for nearly 34.7% (increase in comparison to 2016 by over 12% from 22.2%); industry – 4.0%, and education – over 2%.

The structure of the Company’s suppliers remains without major changes for a few years now. The largest providers include: ALSO Polska Sp. z o.o. (over 20.7%), S4E S.A. (over 16%), HP Inc Polska Sp. z o.o. (over 13%), and Dell sp. z o.o. (over 5%).

The net profit achieved in 2017 in the amount of PLN 5,731 thousand provides a good basis for further dynamic development of the Company. What is worth noting is the 21.42% increase in net profit in relation to 2016, which was generated at a similar level of revenues as in 2016.

The Company does not deploy a separate system of internal control and risk management directly related to the process of preparing financial statements. Financial statements are prepared by financial and accounting services for the Company (supervised by the Chief Accountant) and approved by the Management Board. The financial statement approved by the Management Board is then examined by an independent statutory auditor chosen by the Supervisory Board of the Company.

Internal procedures of the Company, including those related to the process of preparing financial statements, are in accordance with the integrated system of quality and security management of ISO 9001:2008 and ISO 27001:2005 deployed in the Company.

The Supervisory Board, undertaking the analysis of significant risks related to the Company, agrees with the analysis and assessment made by the Management Board in this respect. The Supervisory Board classifies the following as fundamental risks correlated with the Company's situation:

- risk related to the economic situation,
- competition risk,
- the risk associated with dependence on suppliers,
- the risk associated with dependence on large customers,
- risk related to the provision of solutions and services that are of key importance for the operations of customers,
- risk related to the loss of key employees of the Company.

In the opinion of the Supervisory Board, the actions taken by the Management Board towards defined risks, and above all the awareness, constant monitoring of the state of affairs, and activities aimed at their diversification guarantee maximum protection of the Company's interests.

The Company has not implemented a separate policy with respect to sponsoring, charity or other activities of a similar nature, as the scope of such activities does not justify its separate establishment.

The Company did not implemented any other policy regarding sponsorship, charitable or other activities because the scope of operations in this regard do not justify its separate establishment.

In the opinion of the supervisory authority of the Company, the Management Board observed the regulations of generally applicable law and internal rules in making its decisions.

The Supervisory Board, performing supervisory functions in relation to the Management Board and acting solely in the best interests of the Company and its Shareholders, hereby states that the management activity of the Management Board regarding Talex S.A. ensures further dynamic development of the Company and allows for the realistic assessment of the possibilities of achieving the established goals.

Poznan, 9 April 2018 For the Supervisory Board: