

**Report of the Supervisory Board of
ACTION S.A.**

on the results of the assessment of the Management Report, the Company's financial statements, the Management Board's motion regarding the distribution of profit and the assessment of the Company's standing and the activities of the Supervisory Board for financial year 2015.

The **Supervisory Board** of ACTION S.A. with its registered office in Warsaw assessed:

- the Management Report for financial year 2015 and the Company's financial statements for financial year 2015 as regards their correspondence to the books and documents as well as to the facts and also the Management Board's motion regarding the distribution of the Company's profit for financial year 2015, pursuant to Article 382 § 3 of the Commercial Companies Code;
- the Company's standing and the activities of the Supervisory Board, and hereby submits the report from that assessment.

I. MANAGEMENT BOARD REPORT ON

In its Management Report for financial year 2015 the Management Board included:

Basic financials and the description of the development perspectives in the coming financial year, providing the following information:

Sales revenues in 2015: PLN 4,685,978 thousand

Operating profit in 2015: PLN 36,727 thousand

Net profit in 2015: PLN 24,088 thousand

The Management Board pointed to the fact that in 2015 ACTION S.A. posted sales revenues of PLN 4,685,978 thousand, an operating profit of PLN 36 727 thousand and a net profit of PLN 24,088 thousand. The above figures, compared with the same values reached in 2014, decreased by 3.43% with respect to sales revenues, 60.17% with respect to the operating profit and 65.34% with respect to the net profit.

At the same time the Management Board underlined that those figures were the consequences of many factors, among them, changes resulting from a more limited range of technologically advanced devices than in previous years, the introduction of new tax regulations and the growing consolidation of suppliers and retail networks. All these changes had a material impact on the demand recorded in 2015. Additionally, the relatively sudden and unforeseeable nature of these changes caused the margins at all levels of activity to be lower than assumed.

Pointing to the foregoing, the Company's Management Board underscored that it did not envisage any significant changes in relation to technologically advanced devices launched and the entities offering these devices in the approaching year. In the Management Board's opinion, the main factors influencing the financial performance in the future are:

regarding internal factors:

- a) an on-going analysis of the phenomena occurring in the markets served and making decisions aimed at the best possible adjustment of the offer to the tendencies observed,
- b) an on-going control of transaction profitability and cost-effectiveness of the existing structures,
- c) further growth of activities on e-commerce markets,
- d) further expansion of what we offer to include new business areas such as toys and medical equipment,
- e) further improvement of activities in the handling of tenders and Enterprise,
- f) maintenance and gradual growth of export markets and expansion of Action Europe GmbH operating on the German market,
- g) better use of the advantages stemming from the expansion of the logistics centre in Zamienie,
- h) maintaining a wide base of customers representing all sales channels,
- i) further monitoring of the markets served and active participation in the sales channels that have been newly created or not used so far,
- j) maintaining strict ongoing monitoring of costs in the Company and in the Capital Group,
- k) current monitoring and active management of working capital,
- l) optimising the structure of the ACTION Capital Group and the performance of the entities constituting it,

regarding external factors:

- a) economic and political situation in Poland and worldwide,
- b) consequences of the implemented or planned changes in the law, in particular the consequences of the implementation of the Family 500 Plus programme and other regulations supporting consumers,
- c) changes of regulations regarding health care, in particular, with respect to the existence and functioning of NFZ (National Health Fund),
- d) technological changes affecting the innovation of the products offered and the development of the Internet of Things,
- e) changes in the current and long-term monetary policy in Poland and worldwide,
- f) demand for the goods offered by the Company.

In its Report, the Management Board also presented:

- significant risk factors related to the Company's operations,
- risk factors related to the environment in which the Company operates,
- rules of corporate governance,
- information on significant pending proceedings in which the Company participates,
- information on basic commodity lines offered by the Company and their share in the total sales,

- information on downstream markets,
- information on the concluded agreements that are significant for the Company's operations,
- information on capital links and specification of major capital investments,
- description of major transactions with related parties other than those concluded on an arm's length basis,
- information on the contracted credits, loan agreements and guarantees and securities given for the Company,
- information on granted loans, guarantees and securities,
- description of the use of proceeds from the issue of shares,
- information on acquisition of equity shares,
- information concerning the explanation of the differences between the forecasts and the values declared in the annual report,
- assessment of the financial resources management, including the following data:

Liquidity ratios	31 December 2015	31 December 2014
Current ratio (current assets/current liabilities)	1.34	1.30
Quick ratio (liquid current assets / current liabilities)	0.85	0.77
Treasury ratio (cash / current liabilities)	0.03	0.11

The Management Board noted that despite the year being more difficult than expected, the Company once again achieved very safe levels of liquidity ratios. The parameters of liquidity ratios in 2015 maintained their significantly safe values at the level of current liquidity. The Management Board underlined that at the level of quick liquidity, the Company recorded a significant further improvement of the ratio. Meanwhile, at the level of treasury liquidity, the ratio decreased compared to the levels observed before 2014.

Level and structure of working capital in thousand PLN	Exchange	31 December 2015	31 December 2014
1. Current assets	-10.48%	1053 162	1 176 467
2. Cash and securities	-75.67%	25 064	103 003
3. Adjusted current assets (1-2)	-4.23%	1028 098	1 073 464
4. Current liabilities	-12.77%	787 072	902 254
5. Short-term loans	-43.09%	90 464	158 968
6. Adjusted current liabilities (4-5)	-6.28%	696 608	743 286
7. Working capital (1-4)	-2.96%	266 090	274 213

8. Demand for current assets (3-6)	0.40%	331 490	330 178
9. Net cash (7-8)	16.86%	-65 400	-55 965
10. Equity share in financing the current assets (7:1) in %	2%	25%	23%

The Management Board noted that 2015 ended for the Company with a decrease of its current assets by 10.48% mainly in connection with a significant drop in the value of maintained inventories while the value of the assets adjusted by the cash held decreased by 4.23%.

The Company also greatly reduced its short-term interest-bearing debt and the liabilities adjusted by the value of loans incurred decreased by 6.28%.

At the same time the Management Board underlined that as a result of the changes described above, both the working capital and the Company's demand for current assets remained at levels similar to those recorded a year ago.

In the report on operations the Management Board presented debt ratios, which were as follows:

Debt ratios	31 December 2015	31 December 2014
Total debt ratio	71%	75%
Equity to assets	29%	25%
Interest-bearing debt/equity	0.60	0.83

At the end of 2015 the Company's debt ratios remained at a level similar to the values recorded a year ago, however, a clear debt-reduction tendency may be observed. Special attention should be paid to a significant decrease in the interest-bearing debt in relation to the Company's capitals.

Moreover, in its report the Management Board presented:

- an assessment of the possibility of executing intended investments,
- an assessment of the factors and atypical events influencing the result on operations,
- a description of the external and internal factors significant for the Company's development,
- changes to the basic principles of the Company management,
- agreements concluded between the Company and its managers,
- information on the value of remunerations, awards or benefits for the Company's managerial or supervisory staff,
- information on the nominal value and the total number of all the Company's shares,
- information on the agreements which may influence the current shareholding structure,
- information on the systems of control of the employee shares programs,
- information concerning the entity authorised to audit financial statements,
- the Company's anticipated development and its financial standing.

The Appendix to the Management Report on operations includes the declaration on the rules of corporate governance, covering the elements indicated in §91 (5) (4) of the Regulation of the Minister of Finance dated 19 February 2009 (consolidated text Journal of Laws of 2014 item 133) on current and periodic information to be published by issuers of securities and conditions for considering as equivalent information required under the law of a non-member state and § 29 of the Regulations of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) and Resolution No. 12/1170/2007 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. dated 4 July 2007 on passing the "Best Practices of WSE Listed Companies" (as amended). The report also specified that ACTION S.A. had been applying the "Best Practices of WSE Listed Companies" adopted by way of Resolution No. 26/1413 since 1 January 2016.

The **Supervisory Board declares** that the foregoing data and factual circumstances included in the Management Report and audited by the Supervisory Board correspond to the facts, are compliant with the Company's documents and are confirmed by the opinion of an independent statutory auditor, BDO Sp. z o.o.

II. FINANCIAL STATEMENTS

The Company prepared its financial statements for the financial year 2015 in accordance with the International Financial Reporting Standards ("IFRS") approved by the EU, issued and binding as of the balance sheet date, and in matters not regulated by these Standards, in accordance with the Accounting Act of 29 September 1994.

The annual financial statements of ACTION S.A. for the period ended 31 December 2015 comprise: the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and notes containing a description of key accounting principles and selected explanatory notes.

The Company has kept its accounting books in accordance with IFRS since 1 January 2010.

According to the data included in the Company's financial statements for the period from 1 January 2015 to 31 December 2015:

- the statement of comprehensive income for the period from 1 January 2015 to 31 December 2015 showing a net profit of PLN 24,088 and a comprehensive income of PLN 29,309;
- the statement of financial position as of 31 December 2015 showing total assets, equity and liabilities of PLN 1,297,742 thousand;
- the statement of changes in equity for the period from 1 January 2015 to 31 December 2015 showing PLN 371,332 thousand at the end of the period, which constitutes an increase in equity by PLN 16,863 thousand;
- the cash flow statement for the period from 1 January 2015 to 31 December 2015 showing PLN 25,064 thousand at the end of the period, which constitutes a decrease in net cash by PLN 77,939 thousand.

The **Supervisory Board declares** that the reported values are compliant with the Company's documents and facts and are confirmed by the opinion of an independent statutory auditor, BDO Sp. z o.o.

III. MANAGEMENT BOARD'S MOTIONS REGARDING PROFIT

The Company's Management Board motioned that the profit for financial year 2015 of PLN 24,087,801.60 be allocated as follows:

1. PLN 16,957,000, i.e. PLN 1 per share for the payment of the dividend to the Company's Shareholders,
2. PLN 7,130,801.60 for supplementary capital.

The Management Board also proposed the record date (20 September 2016) and the dividend payment date (5 October 2016).

The **Supervisory Board positively assesses** the foregoing Management Board's motion and declares that it accedes to the acceptance of the motion. Having regard to the foregoing, it should be noted that the profit distribution method proposed by the Management Board takes into account the current standing of the Company as well as requirements related to the projects carried out by the Company and cash requirements.

IV. ASSESSMENT OF THE COMPANY'S STANDING AND THE ACTIVITIES OF THE SUPERVISORY BOARD

1. General assessment of the Company's standing.

The financial year of 2015 was a less successful period in the Company's operations in comparison with the previous years although there is no doubt that the Company's standing should be assessed in positive terms. Relatively less satisfying financial performance is definitely an outcome of worse sentiments on the retail market, market changes resulting from a more limited range of technologically advanced devices than in previous years, the introduction of new tax regulations and the growing consolidation of suppliers and retail networks. All these changes had a material impact on the demand recorded in 2015. Additionally, the relatively sudden and unforeseeable nature of these changes caused the margins at all levels of activity to be lower than assumed.

Although the profit posted by the Company was lower than in several previous years, attention should be drawn to sales revenues, which remain at a very high level. This in turn underlines the huge potential of the Company and its capacity to keep a market position under unfavourable circumstances. Financial liquidity ratios are kept at a safe level too.

In 2015, the Company still had a strong and consolidated market position. The Company's sales policy (share of the basic commodity lines in the sales as well as the downstream and upstream markets) indicates a considerable diversity of the product range, buyers and suppliers, which influences positively the Company's operation and prevents a possible overdependence on the suppliers or buyers. In 2015, the Company performed some major distribution agreements and sales contracts with the largest players in the telecommunications industry, and in other sales channels. The Company also develops its downstream markets through its subsidiaries, the branch in Kraków and regional sales representatives. It also continued its Internet sales activities via its subsidiaries: GRAM.PL Sp. z o.o. and SFERIS Sp. z o.o.

In 2015, the Company as part of its capital expenditures:

On 25 March 2015, ACTION S.A. acquired 100% of shares in the increased capital of ACTIONMED Sp. z o.o. for PLN 95 thousand. Then, on 1 July 2015, ACTION S.A. also acquired all newly issued shares in the increased capital of ACTIONMED Sp. z o.o. for PLN 200 thousand.

On 27 October 2015 ACTION S.A. acquired 51% of shares in the share capital of ACTION INNOVATIVE SOLUTIONS Sp. z o.o. for PLN 701 thousand.

On 27 November 2015 ACTION S.A. entered into a contract for the sale of 10 shares acquired of ACTION CENTRUM EDUKACYJNE Sp. z o.o. with a total nominal value of PLN 152 thousand for PLN 160 thousand.

2. Assessment of internal control systems.

The Supervisory Board assessed the efficiency of internal control, risk management, compliance and internal audit systems on the basis of ongoing monitoring of the foregoing systems as well as on the basis of a report on an annual assessment of the efficiency of internal control, risk management, compliance and internal audit systems and functions drawn up by the Management and the Head of the Controlling Department (drawn up in accordance with principle III.Z.4 of the Code of Best Practice 2016). With respect to the internal audit system and the risk management system, the Company's rules of the foreign exchange risk management policy should be noted, which, in particular, provide for:

1. continuous monitoring of foreign exchange items and constant adaptation of hedge levels;
 2. split of controlling and supervising competences between three independent departments within the Company.
- Furthermore, there are hedge accounting principles in place as an element aimed at mitigating the impact of variations of the foreign exchange rates on the Company's results by reflecting the effects of differences between liability payment dates and goods outflows.

Moreover, the financial statements prepared by the Management Board are audited and evaluated by a statutory auditor (appointed by the Supervisory Board) and the Supervisory Board. A statutory auditor attends Supervisory Board meetings devoted to assessing reports on the operating and financial performance of the Company and the Capital Group.

In accordance with the Company's applicable regulations, at least 2 Members of the Supervisory Board meet the independence criteria. Their participation is also significant during internal control and risk management related to the process of drawing up financial statements. In particular, their position is significant when appointing the entity auditing financial statements as well as during other important activities involving the members of the Management Board and related parties [see § 15 (2) (6, 11-12, 13-14) of the Articles of Association].

The departments which operate within the organisational structure of the Company have their budgets determined by the Management Board and the performance of the budget is monitored on a monthly basis. The Supervisory Board has access to this data.

The following ISO systems have been implemented at the Company: 9001:2008 Quality management system, ISO 14001:2004 Environmental management system, ISO 27001:2005 Information security management system, ISO 28000:2007 Supply chain security management system and AEO status granted to credible and solvent businesses whose organisation, infrastructure, IT system security measures and security measures for places where goods are stored or security measures for means of transport ensure the security of such places and goods, and protect them against unauthorised access.

The systems and regulations presented above determine the course of operations. They enable correct information flow and financial reporting.

§ 15 of the Company's Articles of Association regulates the responsibilities of the audit committee (within the meaning of the Act of 7 May 2009 on Statutory Auditors, their Professional Association, Entities Authorised to Audit Financial Statements and on Public Supervision – Journal of Laws, No. 77, item 649, as amended). These responsibilities have been assigned to the Company's Supervisory Board (as long as it is composed of not more than 5 members). There are no other committees within the Supervisory Board.

In the opinion of the Supervisory Board, the internal control systems presented above as well as the systems specified in the report of the Management Board and the Head of the Controlling Department make it possible to conclude that those systems operate in a correct manner.

At the same time, performing its obligation arising from principle III.Z.6 of the Code of Best Practice 2016, the Supervisory Board is of an opinion that it is not necessary to form a separate internal audit department at the Company. At the Company functions of internal control, risk management, compliance and internal audit systems are performed in particular by: the Controlling and Operational Support Departments, Coordinators for Optimising Processes and ISO Management Systems and the Legal Department. In the opinion of the Supervisory Board, the above system ensures proper performance of internal audit tasks at the Company.

3. Activities of the Supervisory Board.

Financial year 2015 was another, ninth full year of operation of ACTION S.A. as a public company. The increased requirements related to the foregoing also applied to the Supervisory Board. In the discussed period the Supervisory Board consisted of 5 Members, which is the minimum specified by law. In financial year 2015 the Supervisory Board consisted of the following members:

Iwona Bocianowska – Chairperson of the Supervisory Board,

Karol Orzechowski – Independent Member of the Supervisory Board (Vice-Chairperson of the Supervisory Board),

Piotr Chajderowski – Independent Member of the Supervisory Board,

Piotr Kosmala – Member of the Supervisory Board,

Marek Jakubowski – Member of the Supervisory Board (Secretary of the Supervisory Board).

No changes occurred in the composition of the Supervisory Board during the last financial year. However, the appointment of Mr. Piotr Chajderowski as a co-opted member of the Supervisory Board by Supervisory Board Members pursuant to § 12 (2) of the Articles of Association was approved by the Annual General Meeting of ACTION S.A. pursuant to Resolution no. 12 of 10 June 2015.

The Company's Articles of Association stipulate two Independent Members of the Supervisory Board. The independence criteria defined in the Articles of Association fully meet the independence requirements set forth in principle II.Z.4 of the Code of Best Practice 2016. Supervisory Board Members submit statements on meeting the

independence criteria on a regular basis. In the opinion of the Supervisory Board the independence criteria are met.

In financial year 2015 there were 6 Supervisory Board meetings held, during which the body adopted a number of resolutions resulting mainly from the supervisory and control powers of the Supervisory Board. The main issues raised during the last year included:

- giving opinions on draft resolutions of the General Shareholders' Meetings;
- ongoing assessment of the Company's operations, its internal control systems as well as the activities and objectives of the Management Board;
- assessment of the report on the Company's operations and the operation of its capital group, and of the financial statements, including the consolidated financial statements;
- selecting a statutory auditor;
- awarding additional remuneration to Management Board Members for their duties;
- amending the Rules and Regulations of Management Options;
- giving consent to the Company acquiring and taking up shares in other entities (ACTIONMED Sp. z o.o., ACTION INNOVATIVE SOLUTIONS Sp. z o.o.).

Supervisory Board Members have access to information and documents necessary to perform activities in the scope of responsibilities of the Supervisory Board. The Company ensures that persons directly performing tasks subject to an assessment by the Board attend meetings or provide information. The Supervisory Board is of an opinion that it performs its obligations correctly and in compliance with applicable regulations.

The Supervisory Board concludes that in 2015 the Company correctly performed its disclosure obligations regarding the application of the rules of corporate governance specified in the Warsaw Stock Exchange Rules as well as regulations on current and periodic information published by issuers of securities. The Company drew up and published reports in this scope, including annual statements for 2015. Moreover, on the basis of the Warsaw Stock Exchange Rules, the Company published relevant reports on non-application of certain corporate governance rules.

The Company's Management Board, taking into account recommendation no. I.R.2. of the Code of Best Practice 2016, reported that in 2015 ACTION S.A. carried out sponsorship and charity activities. The policy of ACTION S.A. in the discussed area is based on the assumption that the Company needs to help those in a difficult position for reasons beyond their control and to support initiatives connected with the development of sport and physical activity. On the basis of the above guidelines, ACTION S.A. – as part of its charity activities – conducts the campaign "ACTION makes children's dream come true" by supporting children from children's homes. With respect to sponsorship activities, ACTION S.A. supports bicycle races, football matches, track and field events. In 2015, ACTION S.A. sponsored the Activejet professional cycling team and participated in the running of the Copernicus Academy (by sponsoring the pupils' cycling club). ACTION S.A. also supports local initiatives: the sports club FC Lesznowola (helping in the construction of a football pitch, supporting the club in various sports

initiatives); organizes a mini-marathon during the Pumpkin Day in Lesznowola, taking place annually in late October.

In the opinion of the Supervisory Board both the assumption of the above policy of the Company and activities undertaken as part of this policy should be recognised as useful and reasonable. Apart from the ethical dimension and supporting local initiatives, charity and sponsorship activities involve clear benefits for the Company in the area of promotion and building a positive image. Costs of these activities do not have a significant influence on the Company's operations.

The Supervisory Board takes the position that the data included in the statements covered by the assessment and this report are sufficient to consider the Company's current standing as still very good.

Warsaw, 24 May 2016