Appendix No 1 to Minutes No 1/2017 of the Meeting of the Supervisory Board of ACTION S.A. in restructuring of 15 May 2017

Report of the Supervisory Board of ACTION S.A. in restructuring on the results of the assessment of the Management Board Report, the financial statements, the Management Board's proposal concerning the coverage of loss and assessment of the financial position of the Company and activities of the Supervisory Board for the financial year 2016

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

- assessed the report of the Management Board on the operations of Company for the financial year 2016, the financial statements of the Company for the financial year 2016 in terms of the conformity thereof with the books, documents and the factual circumstances, as well as the Management Board's proposal concerning the coverage of the loss incurred by the Company for the financial year 2016, pursuant to Article 382 § 3 of the Commercial Companies Code;
- assessed the standing of the Company and activities of the Supervisory Board, and hereby submits the report on the said assessment.

I. REPORT OF THE MANAGEMENT BOARD ON OPERATIONS

In its report on operations in the financial year 2016, the Company's Management Board indicated:

Basic figures and development prospects in the next financial year, providing the following information:

Sales revenue earned in 2016: PLN 2,585,059 thousand
Operating loss incurred in 2016: PLN 154,138 thousand
Net loss incurred in 2016: PLN 154,414 thousand

The Management Board pointed out that in 2016 ACTION S.A. in restructuring earned sales revenue of PLN 2,585,059 thousand, incurred an operating loss of PLN 154,138 thousand and a net loss of PLN 154,414 thousand.

At the same time, the Management Board emphasised that, for the first time in its history, the Issuer closed the financial year with a loss both on the operating and the net levels. The values presented above are affected by the results of the restructuring proceedings within the meaning of the provisions of the Restructuring Law Act of 15 May 2015 (Journal of Laws of 2015, item 978 – hereinafter: the Restructuring Law) pending at the Issuer's Company. First and foremost, it must be emphasized that the decline in results for 2016 is largely of a non-monetary nature. It is a consequence of a decision taken by the Issuer's Management Board (taking into account the auditor's suggestion) to assume a very conservative approach in determining the result. In particular, the Management Board of the Company states that the provisions recognised amount to 100% of the Company's potential liabilities in respect of the tax decisions received. The most important events affecting the reported result are presented below: 1) Costs of provisions recognised – costs of provisions recognised for potential liabilities in respect of tax decisions issued in 2016 and provisions for the credit repayment guarantee granted to Lapado GmbH. The above events did not affect the Company's cash flows in 2016. Potential liabilities resulting from the above are subject to arrangement by virtue of law. 2) Costs of impairment write-downs on financial assets – mainly shares in the subsidiaries: Sferis Sp. z o.o. and Lapado GmbH. The above events did not affect the Company's cash flows in 2016. The above was related to the implementation of the Restructuring Plan as regards consolidation of the Capital Group of ACTION S.A. in restructuring. 3) Losses related to the sale of goods in the course of remedial proceedings and direct costs of remedial proceedings in 2016, in line with the assumptions of the Restructuring Plan. The amount of the loss was increased by the value of the provision for losses that will be generated when the sale continues in 2017. 4) Costs of impairment write-downs on receivables – costs related to the revaluation of receivables from subsidiaries and disputed receivables of ACTION S.A. in restructuring from other counterparties. The above event did not affect the Company's cash flows in 2016.
In discussing the foregoing, the Company's Management Board emphasised that it did not expect any significant changes in relation to technologically advanced devices put on the market and the entities offering these devices in the coming year. In the Management Board's opinion, the main factors influencing the financial performance in the future

are:

Regarding internal factors:

a) Ongoing analysis of progress in the implementation of the Restructuring Plan and the effects of changes implemented.
b) Ongoing analysis of profitability of the transactions and markets served, with a clear focus on the small customer market and retail market, in particular e-commerce, in Poland and abroad.
c) Current supervision over the scope of commercial offers and entering new markets.
d) Strict verification of the effectiveness of current assets management, including inventories management.
e) Further development of Action Europe GmbH and the newly established company in China.
f) Ongoing monitoring of the risks related to the activities of the Company and undertaking measures to limit or eliminate these risks.
g) Ongoing analysis and strict control of cost efficiency of the activities performed.
h) Ongoing control and effective management of finances with the limited financing available.
i) Effective utilisation of available logistics resources.

Regarding external factors:

a) Progress of the restructuring proceedings, including in particular the dates of key decisions taken by the Court, Board of Creditors, Administrator and other parties to the restructuring proceedings.
b) Further progress in the fiscal proceedings conducted against the Company and appeal proceedings connected therewith.
c) Results of the fiscal proceedings conducted against the largest competitors of the Company and their influence on their operating activities and the market structure.
d) The behaviour of financial institutions, including banks and insurers, towards the results of fiscal proceedings pending in the industry.
e) Changes in the distribution market and the behaviour of competitors.
f) Technological changes concerning offered products.
g) Changes in the market shares of the largest suppliers and recipients of the Company.
h) Economic and political situation in Poland and worldwide.
i) Consequences of 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.
j) Scale of investments implemented in Poland, in particular IT-related investment projects.
k) Changes in current and long-term monetary policy in Poland and worldwide.
l) Demand for the goods offered by the Company.

In its report on operations, the Management Board also presented:

- material risk factors related to the Company's activities,
- risk factors related to the environment in which the Company operates,
- corporate governance principles,
- information on material proceedings to which the Company is a party,
- information on basic groups of goods offered by the Company and their share in total sales,
- information on sales markets,
- information on agreements that are significant for the Company's operations,
- information on equity relationships and the specification of major capital investments,
- major transactions with related entities concluded on non-market conditions,
- information on credits taken out by the Company, on loan agreements and on guarantees and sureties granted in favour of the Company,
- information on loans, guarantees and sureties granted,
- description of the use of proceeds from the issue of shares,
- information on the acquisition of treasury shares,
- information concerning the explanation of differences between the forecasts and figures disclosed in the annual report,
- assessment of financial resource management, including the following data:

Liquidity ratios	31/12/2016	31/12/2015
Current ratio (current assets / current liabilities)	1.01	1.34
Quick ratio (liquid current assets / current liabilities)	0.77	0.85
Cash ratio (cash / current liabilities)	0.23	0.03

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 2016 maintained their significantly safe values at the current liquidity level. The Management Board emphasised that at the quick liquidity level, the Company recorded a significant further improvement of the ratio. Meanwhile, at the cash liquidity level, the ratio decreased compared to the levels recorded before 2015. The ratios reported at the end of 2016 are so high due to, to a large extend, the events resulting from the ongoing restructuring process. A significant reduction in the scale of operations resulted in the release of significant amounts of cash that was previously frozen in the Company's inventories and receivables.

Level and structure of working capital in PLN '000	Change	31/12/2016	31/12/2015
1. Current assets	-42.23%	608,372	1,053,162
2. Cash and securities	456.50%	139,480	25,064
3. Adjusted current assets (1-2)	-54.39%	468,892	1,028,098
4. Current liabilities	-23.19%	604,519	787,072
5. Short-term credits	138.07%	215,370	90,464
6. Adjusted current liabilities (4-5)	-44.14%	389,149	696,608
7. Working capital (1-4)	-98.55%	3,853	266,090
8. Demand for current assets (3-6)	-75.94%	79,743	331,490
9. Net cash (7-8)	16.04%	-75,890	-65,400
10. Share of own funds in the financing of current assets (7:1) in %	-24%	1%	25%

The Management Board pointed out that at the end of 2016, the majority of balance sheet items decreased significantly; however this applied in the largest extent to current assets and current liabilities. As was the case for liquidity ratios, the main reasons for such significant changes were the events related to the introduction and implementation of the restructuring proceedings described earlier in the report. The above changes were largely affected by the reduction of operations in the low-margin and high-risk areas of the market, but also by disruptions in the implementation of deliveries experienced by the Issuer, in particular at the early stage of the restructuring process. As a result of the above, the demand for current assets has decreased and is currently easily covered by the Company's equity. It, however, should be remembered that the Company has not started the settlement of pre-remedial liabilities.

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

Debt ratios	31/12/2016	31/12/2015
Total debt ratio	76%	71%
Equity to assets ratio	24%	29%
Interest-bearing debt/equity	1.18	0.60

At the end of 2016, all debt ratios deteriorated. The most important factor in the scale of changes observed was the net loss recorded that, to a large extent, decreased the balance of the Company's equity. Due to a very conservative approach to recognising provisions that decrease the financial result for 2016, the Company does not expect any further losses not indicated in the projections that constitute an appendix to the Restructuring Plan.

Moreover, the Management Board's report presents:
- assessment of the ability to fulfil investment plans,
- evaluation of the factors and non-typical events influencing the result of operations,
- description of the external and internal factors significant for the Company's development,
- changes in the basic principles of managing the Company,
- agreements entered into between the Company and its managing persons,
- information on the value of remuneration, awards or benefits for persons managing or supervising the Company,
- information on the nominal value and total number of all the Company's shares,
- information on the agreements which may influence the current shareholder structure,
- information on the system of control over employee share incentive programs,
- information concerning the entity authorised to audit financial statements,
- expected development of the Company and its financial standing.

The appendix to the report of the Management Board on operations contains a statement concerning the application of the corporate governance principles, which includes components indicated in § 91(5) and (4) of the Ordinance of the Minister of Finance of 19 February 2009 (Journal of Laws of 2014, item 133) on current and interim information to be submitted by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state, § 29 of Regulations of the Warsaw Stock Exchange and Resolution No 12/1170/2007 of the Supervisory Board of Warsaw Stock Exchange of 4 July 2007 on the adoption of "Best Practice of GPW Listed Companies" (as amended). The aforesaid statement also indicates that ACTION S.A. in restructuring has been subject to the corporate governance principles "Best Practice of GPW Listed Companies 2016", introduced by Resolution No 26/1413, since 1 January 2016.

The Supervisory Board concludes that the aforementioned figures and factual circumstances contained in the report of the Management Board on operations and examined by the Supervisory Board are factually correct, consistent with the Company's documents and confirmed by the opinion of the registered auditor: BDO Sp. z o.o.

II. FINANCIAL STATEMENTS

The financial statements for the financial year 2016 were prepared by the Company in accordance with the International Financial Reporting Standards ("IFRS"), as approved by the EU, issued and applicable as at the balance sheet date and, in matters not regulated by those Standards, in accordance with the Accounting Act of 29 September 1994.
The annual financial statements of ACTION S.A. in restructuring for the period ended 31 December 2016 comprise: statement of comprehensive income, statement of financial position, statement of changes in equity, cash flow statement and notes containing a description of the key accounting principles and selected explanatory notes.
The Company has kept its accounting books in accordance with IFRS since 1 January 2010.

In accordance with the data contained in the financial statements of the Company for the period from 1 January 2016 to 31 December 2016:
– the consolidated statement of comprehensive income for the period from 1 January 2016 to 31 December 2016 shows a net loss of PLN -154,414 thousand and comprehensive income of PLN 2,585,059 thousand;
– the statement of financial position prepared as at 31 December 2016 shows total assets as well as total equity and liabilities of PLN 821,968 thousand;
– the statement of changes in equity for the period from 1 January 2016 to 31 December 2016 shows a closing balance of PLN 198,110 thousand which means that the balance of equity decreased by PLN 173,222 thousand;
– the cash flow statement for the period from 1 January 2016 to 31 December 2016 shows a closing balance of PLN 139,480 thousand, i.e. an increase in net cash by PLN 114,416 thousand.

The Supervisory Board concludes that the above figures are consistent with the Company's documents and factual circumstances, and that they are confirmed by the opinion of the registered auditor: BDO Sp. z o.o.

III. PROPOSALS OF THE MANAGEMENT BOARD CONCERNING THE COVERAGE OF LOSS

The Management Board of ACTION Spółka Akcyjna in restructuring with its registered office in Warsaw submitted a proposal that the losses of the Company for the financial year 2016 covering the period from 1 January 2016 to 31 December 2016, amounting to PLN 154,414,402.75 (one hundred fifty-four million four hundred fourteen thousand four hundred two zloty, seventy five grosz), be covered from the Company's supplementary capital.

The Management Board presented the reasons for the loss incurred in the financial year 2016. Justifying the above proposal, the Management Board emphasises that owing to the Company's activities to date, characterised by profits earned in individual financial years, proceeds from the issue of the Company's shares by the public offering and the dividend policy pursued, the Company was able to accumulate a high level of supplementary capital. In the current situation of the Company, it is justified that the supplementary capital be allocated to the coverage of loss for the financial year 2016. In accordance with § 19(4) of the Company's Articles of Association, the supplementary capital is recognised specifically for this purpose.

The **Supervisory Board** endorses the aforementioned proposal of the Management Board and expresses its intention to approve the said proposal. To justify the above, it should be pointed out that the method of coverage of loss proposed by the Management Board takes into account the current situation of the Company and the Capital Group.

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 2016 was a less successful period for the Company's operations as compared to previous periods, due to the accumulation, over a relatively short period, of many negative external factors related to tax decisions issued against the Company. As a result, the Company was forced to submit a motion to initiate remedial proceedings. Since the opening of the remedial proceedings, the Company has continued to conduct its activities and introduced restructuring procedures aimed at improving its financial position. It should be concluded that the restructuring process is successful and that the Management Board performs all activities resulting from the remedial law. However, further intensified efforts of the Management Board are required to complete this process. The Supervisory Board would like to emphasise here that the measures taken by the Management Board should be assessed positively at the moment, primarily due to the size of the Action's enterprise and numerous obstacles encountered, in particular, in the initial phase of the restructuring proceedings.

The key assumption of the Company's policy is business flexibility and a continuous search for attractive growth areas. The Company will continue to sign new distribution agreements that will expand the range of the Company's products.

In 2016, the Company, as part of its equity investments:

In 2016, the Company established a Wholly Foreign Owned Enterprise (WFOE) in the People's Republic of China, under the business name of Action (Guangzhou) Trading Co., Ltd, and took up 100% of shares in the share capital of this company. The share capital of this company amounts to CNY 1 million (approx. PLN 630 thousand).

2. Assessment of internal control systems

The Supervisory Board assessed the effectiveness of the internal control, risk management and compliance systems as well as the internal audit function on the basis of ongoing monitoring of the aforesaid systems as well as on the basis of a report on the annual assessment of the effectiveness of the internal control, risk management and compliance systems as well as the internal audit function prepared by the Management Board and the Head of the Controlling Department

(drawn up in accordance with principle III.Z.4 of Best Practice of GPW Listed Companies 2016). As part of the assessment of the internal control system and the risk management system, particular attention should be paid to the currency risk management principles applicable in the Company. These principles assume in particular:
1. continuous monitoring of currency positions and on-going alignment of hedge levels;
2. division of control and supervisory competences between three independent departments of the Company. Furthermore, the Company also has accounting principles in place as an element aimed at mitigating the impact of exchange rate volatility on the Company's results by reflecting the effects of differences between the timeframes of settlement of liabilities and outflow of goods.
Moreover, the financial statements prepared by the Management Board are audited and assessed by a registered auditor (appointed by the Supervisory Board) and the Supervisory Board. A register auditor attends the Supervisory Board's meetings during which the Board assesses the report on operations and the financial statements of the Company and the Capital Group.
In accordance with regulations applicable at the Company, 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 preparing financial statements. In particular, their position is significant when the entity auditing financial statements is being selected as well as during other important activities related to 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 Company has implemented the ISO 9001:2008 quality management system, ISO 14001:2004 environmental management system, ISO 27001:2005 information security management system and ISO 28000:2007 supply chain security management system, and the AEO status granted to operators that are credible and solvent, whose organisation, infrastructure and IT system security measures and security measures for goods warehousing locations or means of transport ensure the security of such locations and goods and protect them from 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 registered auditors and their council, entities entitled to provide an audit of financial statements and 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.

It should also be noted that during the remedial proceedings in relation to the Company, activities that exceed the scope of the regular management require the Administrator's approval. Actions listed in Article 129 of the Restructuring Law require an approval of the Board of Creditors. The above elements of supervision exercised as part of the remedial proceedings additionally expand the scope of the internal control.

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 Best Practice of GPW Listed Companies 2016, the Supervisory Board takes the view that it is not necessary to establish a separate internal audit department at the Company. At the Company, the functions of internal control, risk management and compliance systems as well as internal audit functions are performed by, in particular: the controlling and operational support department, the process optimisation coordinators, the ISO management systems and the legal department. In the opinion of the Supervisory Board, the above system ensures proper performance of the internal audit tasks at the Company.

3. Activities of the Supervisory Board
The financial year 2016 was the tenth full year of operation of ACTION S.A. in restructuring 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 number specified by law. In the financial year 2016, 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,
Krzysztof Kaczmarczyk – Member of the Supervisory Board (since 20 July 2016),
Marek Jakubowski – Member of the Supervisory Board (Secretary of the Supervisory Board),
Piotr Kosmala – Member of the Supervisory Board (until 19 July 2016).

During the last financial year, there were no changes in the composition of the Supervisory Board. On 14 June 2016, Mr Piotr Kosmala tendered his resignation from applying to be appointed to the Supervisory Board for the next term of office. On 23 June 2016, the Ordinary General Meeting appointed the Supervisory Board with one new member of the Supervisory Board, Mr Krzysztof Kaczmarczyk.

Pursuant to the Company's Articles of Association, the Supervisory Board must include 2 Independent Members. The independence criteria defined in the Articles of Association fully meet the independence requirements set forth in principle II.Z.4 of the Best Practice of GPW Listed Companies 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 the financial year 2016, the Supervisory Board held 7 meetings during which this body adopted a number of resolutions resulting mainly from the supervisory and control powers of the Supervisory Board. Key issues raised last year included:
– giving opinions on draft resolutions of the General Meeting of Shareholders;
– 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 operations of its Capital Group, and assessment of the financial statements, including the consolidated financial statements;
– appointment of the registered auditor;
– awarding additional remuneration to Management Board Members for their duties;
– amending the Rules of Management Options;
– ongoing control over the course of the remedial proceedings pending in relation to the Company.
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 its meetings or provide information. The Supervisory Board is of an opinion that it performs its obligations in a correct manner and in compliance with applicable regulations.

The Supervisory Board concludes that in 2016 the Company correctly performed its disclosure obligations regarding the application of the corporate governance specified principles in the Regulations of the Warsaw Stock Exchange as well as regulations on current and periodic information published by issuers of securities. The Company prepared and published reports on the above matters (together with annual financial statements and reports for 2016). Moreover, on the basis of Regulations of the Warsaw Stock Exchange, the Company published relevant reports on the non-application of certain corporate governance principles.

Taking into account recommendation no. I.R.2 of the Best Practice 2016, the Management Board of the Company stated that ACTION S.A. in restructuring carried out sponsorship and charity activities in 2016. The policy of ACTION S.A. in restructuring 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. in restructuring – as regards charity activities – provides support to children from orphanages by conducting the campaign entitled "ACTION makes children's dream come true". In terms of sponsoring activities, the Company supports cycling events, football events and athletics events. In 2016, ACTION S.A. in restructuring supported a professional cycling group, Activejet, and Winter Triathlon. ACTION S.A. in restructuring also supports local initiatives: provides support to the sports club FC Lesznowola (help in the construction of a football pitch, support for the club in various sports initiatives). In addition, companies of the Action Capital Group carried out sponsoring activities addressed to a boxing group Sferis KnockOut Promotions (Sferis) and gaming group PRIDE (gram.pl).

In the opinion of the Supervisory Board, both the assumptions of the above policy of the Company and the 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. The costs of these activities do not have a significant influence on the Company's operations.

The Supervisory Board is of the opinion that the information contained in the reports and statements covered by the assessment and this report is sufficient to conclude that the current standing of the Company remains stable.

Warsaw, 15 May 2017

Iwona Bocianowska ....

Karol Orzechowski ………………………………

Piotr Chajderowski ………………………………

Krzysztof Kaczmarczyk ....

Marek Jakubowski ....