Appendix No 2 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 consolidated financial statements, the Management Board's proposal and information concerning the coverage of loss and assessment of the financial position of the Capital Group of ACTION S.A. in restructuring 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 operations of the Capital Group of ACTION S.A. in restructuring for the financial year 2016, the consolidated financial statements of the Capital Group of ACTION S.A. in restructuring for the financial year 2016 in terms of the conformity thereof with books, documents and the factual circumstances, as well as the Management Board's proposal concerning the coverage of loss incurred by the Group for the financial year 2016, pursuant to Article 382 § 3 of the Commercial Companies Code;
- briefly assessed the standing of the Capital Group of ACTION S.A. in restructuring, and hereby submits the report on the said assessment.

I. REPORT OF THE MANAGEMENT BOARD ON OPERATIONS OF THE GROUP

In its report on operations of the Capital Group of ACTION S.A. in restructuring in the financial year 2016, the Company's Management Board indicated:

Basic figures and development prospects of the Capital Group of ACTION S.A. in restructuring in the next financial year, providing the following information:

Sales revenue earned in 2016: PLN 3,164,837 thousand
Operating loss incurred in 2016: PLN -147,536 thousand
Net loss incurred in 2016: PLN -159,753 thousand

The Management Board pointed out that in 2016 the sales revenue of the ACTION Capital Group amounted to PLN 3,164,837 thousand, operating loss to PLN -147,536 thousand and net loss to PLN -159,753 thousand.

The Management Board emphasised that, for the first time in its history, the Group 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 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 ACTION S.A. in restructuring (hereinafter: the Parent Company, Company, Issuer). 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) Impairment write-downs on goodwill – mainly in the subsidiaries: Sferis Sp. z o.o. and Lapado GmbH. The above event 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 Group. 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 loss was increased by the value of the provision for losses that will be generated when the sale continues in 2017. 4) Costs of write-downs on receivables. The above event did not affect the Company's cash flows in 2016. In the coming year, the Management Board envisages conducting a series of restructuring measures detailed in the Restructuring Plan of 2 November 2016. The main areas for the planned measures and basic pillars of the Group's new strategy are as follows: I. Drawing benefits from the difficult market situation. II. Substantial changes in the organization of the Capital Group of ACTION S.A. in restructuring. III. Strong own brands of ACTION.

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 Group entities 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 ACTION S.A. in restructuring and appeal proceedings connected therewith.
c) Results of the fiscal proceedings conducted against the largest competitors of the domestic members of the Group 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 market shares of the largest suppliers and recipients of the ACTION Capital Group's Parent 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 the current and long-term monetary policy in Poland and worldwide.
l) Demand for the goods offered by entities from the ACTION Capital Group.

In its report on operations of the Capital Group, the Management Board also presented:
- material risk factors related to the Group's activities,
- corporate governance principles,
- information on basic groups of goods offered by the Group and their share in total sales,
- information on sales markets,
- information on agreements that are significant for the Group's operations,
- information on equity relationships, major capital investments and directions of the Group's development,
- major transactions with related entities concluded on non-market conditions,
- information on credits taken out, on loan agreements and on guarantees and sureties granted in favour of the Group companies,
- information on loans, guarantees and sureties granted,
- description of the use of proceeds from the issue of shares,
- information concerning the explanation of differences between the forecasts and figures disclosed in the annual report,
- assessment of human resource management and the structure of assets, equity and liabilities in the consolidated statement of financial position, including the following data:

Liquidity ratios	31/12/2016	31/12/2015
Current ratio (current assets / current liabilities)	1.01	1.33
Quick ratio (liquid current assets / current liabilities)	0.73	0.79
Cash ratio (short-term investments / current liabilities)	23.87%	4.42%

The Management Board emphasised that at the end of 2016 the liquidity ratios of the ACTION Capital Group changed significantly, which was a result of the restructuring proceedings pending in relation to the Issuer. A particularly significant decline was recorded for the current ratio. This ratio decreased to the above-mentioned value due to a substantial reduction in inventories with the simultaneous legal prohibition of payment of liabilities. The Management Board also noted that it is often necessary to sell inventories at prices that are significantly lower than the purchase prices, but which are in line with market prices. These actions resulted from the absence of current contributions from suppliers which are widely applicable in the industry. The Management Board stated that in the course of the carried out restructuring activities, it undertook actions aimed at encumbering suppliers with losses resulting from the sale of goods below their purchase price.
At the same time, the cash ratio improved significantly, which also, however, reflected the prohibition on payment of liabilities.

Level and structure of working capital in PLN '000	**Change**	**31/12/2016**	**31/12/2015**
1. Current assets	-43.76%	642,745	1,142,946
2. Cash and securities	300.80%	152,557	38,063
3. Adjusted current assets (1-2)	-55.63%	490,188	1,104,883
4. Current liabilities	-25.79%	639,236	861,438
5. Short-term credits	119.81%	253,715	115,423
6. Adjusted current liabilities (4-5)	-48.32%	385,521	746,015
7. Working capital (1-4)	-98.75%	3,509	281,508
8. Demand for working capital (3-6)	-70.83%	104,667	358,868
9. Net cash (7-8)	-30.76%	-101,158	-77,360
10. Share of own funds in the financing of current assets (7:1) in %	-24.00%	1%	25%

The Management Board emphasised that the effects of introducing restructuring proceedings also had a significant impact on the value of current assets and sources of their financing and on the resulting relationships between current assets and liabilities. The above table indicates that non-current assets decreased in relation to the previous year by more than 43% with a simultaneous increase in cash held by more than 300% as compared to the previous year. The reasons for such changes are provided in the description of liquidity ratios.
The increase in short-term credits was mainly due to the reclassification of long-term debt due to its close maturity.
In consequence, at the end of 2016 the group reported a significant decrease in working capital (by nearly 99%) and similarly a significant decrease in demand for working capital (by nearly 71%). The balance of cash decreased from PLN -77,360 thousand in the previous year to PLN -101,104 thousand as at the end of 2016.

At the same time, the Management Board indicated that as a result of a significant deterioration of the financial performance of the ACTION Capital Group in 2016, the value of debt ratios has also decreased significantly. Despite the fact that the vast majority of components of the negative financial result recorded this year was of a non-monetary nature, the entire negative financial result decreased the balance of equity held.
As a consequence, the analysed debt ratios assumed values as presented in the table below. The Management Board notes that the payment moratorium imposed on ACTION S.A. in restructuring significantly limits the ability to reduce the debt of the Company and the Group.

Debt ratios	**31/12/2016**	**31/12/2015**
Total debt ratio	78.85%	73.58%
Net debt ratio*	74.12%	72.82%
Equity to assets ratio	21.15%	26.42%
Interest-bearing debt/equity	154.60%	69.22%

*(liabilities – cash)/(assets – cash)

The percentage structure of the consolidated balance sheet as at 31 December 2016 and 31 December 2015 is as follows:

	31/12/2016		31/12/2015	
ASSETS				
Non-current assets	**192,789**	**23.07%**	**218,241**	**16.03%**
Property, plant and equipment	173,065	20.71%	181,213	13.31%
Goodwill	2,336	0.28%	17,500	1.29%
Other intangible assets	10,989	1.32%	12,463	0.92%
Investment properties	3,545	0.42%	3,545	0.26%
Financial assets	324	0.04%	324	0.02%
Shares in associates measured using the equity method	0	0.00%	2,433	0.18%
Deferred income tax assets	1,580	0.19%	35	0.00%
Trade and other receivables	950	0.11%	728	0.05%
Current assets	**642,745**	**76.93%**	**1,142,946**	**83.97%**
Inventories	178,652	21.38%	460,235	33.81%
Trade and other receivables	304,463	36.44%	634,893	46.64%
Current income tax receivables	6,067	0.73%	9,033	0.66%
Derivative financial instruments	306	0.04%	14	0.00%
Other financial assets	700	0.08%	708	0.05%
Cash and cash equivalents	152,557	18.26%	38,063	2.80%
Total assets	**835,534**	**100.00%**	**1,361,187**	**100.00%**
EQUITY				
Equity attributable to the Company's shareholders	**176,727**	**21.15%**	**359,636**	**26.42%**
Share capital	1,696	0.20%	1,661	0.12%
Share premium	62,231	7.45%	58,112	4.27%
Other reserves	30,000	3.59%	34,164	2.51%
Retained earnings	89,022	10.65%	265,731	19.52%
Foreign exchange differences arising on translation of a foreign operation	-128	-0.02%	-183	-0.01%
Other components of equity	-177	-0.02%	1,664	0.12%
Minority interest / Controlling interest	**-5,917**	**-0.71%**	**-1,513**	**-0.11%**
Total equity	**176,727**	**21.15%**	**359,636**	**26.42%**
LIABILITIES				
Long-term liabilities	**19,571**	2.34%	**140,113**	**10.29%**
Credits, loans and other liabilities due to financing	19,540	**2.34%**	133,505	9.81%
Trade and other liabilities	0	0.00%	0	0.00%
Deferred income tax provision	31	0.00%	6,608	0.49%
Short-term liabilities	**639,236**	**76.51%**	**861,438**	**63.29%**
Trade and other liabilities	383,958	45.95%	744,281	54.68%
Credits, loans and other liabilities due to financing	253,715	30.37%	115,423	8.48%
Current income tax liabilities	91	0.01%	143	0.01%
Liabilities due to employee benefits	1,472	0.18%	1,591	0.12%
Derivative financial instruments	0	0.00%	0	0.00%
Provisions for other liabilities and charges	0	0.00%	0	0.00%
Total liabilities	**658,807**	**78.85%**	**1,001,551**	**73.58%**
Total equity and liabilities	**835,534**	**100.00%**	**1,361,187**	**100.00%**

Description of assets:

Despite the observed significant decrease in the scale of the Group's activities and the resulting decrease in total assets, the current assets whose value as at the end of 2016 accounted for nearly 77% of the total assets remained of the highest importance for the Group's activities. Inventories accounted for 21.38% and receivables for 36.44% of the total assets. The share of cash held also increased significantly and reached 18.26% of the total assets. The aforementioned decrease in total assets resulted primarily from a material decrease in current assets, with a quite comparable balance of non-current assets which has decreased mainly by the amount of the write-down on goodwill.

Description of equity and liabilities:

Unlike in the past years, both the value of equity and its share in total equity and liabilities decreased significantly in 2016. The share of equity reached 21.15%, which represents a decrease by 5.27 p.p. in comparison with the previous year. A significant decrease was also recorded for long-term liabilities, which results mostly from the expiry of the maturities of bonds and other debt liabilities. Therefore, it was necessary to reclassify liabilities due to their maturities and recognise most of them as short-term liabilities. Following the above, the share of long-term liabilities in total equity and liabilities declined from 10.29% to 2.34%, and the share of short-term liabilities increased from 63.29% to 76.51% as at the end of 2016.

To summarise, after the end of the investment period, the Group optimises the balance sheet structure and the key components of assets, equity and liabilities remain at a safe level.

Moreover, the Management Board's report presents:
- major events having an influence on the results of operations,
- a description of the structure of main capital investments,
- a description of the organisation of the Group with the indication of entities subject to consolidation,
- a description of the Capital Group's development policy,
- a description of significant off-balance sheet items, indicating that such items include only contingent receivables and liabilities.

As at 31 December 2016, the Group held collateral for the repayment of receivables amounting to PLN 9,435 thousand.
Collateral liabilities, resulting from agreements signed as at the reporting date and not reflected in the consolidated financial statements of the Capital Group of ACTION S.A. in restructuring, amounted to PLN 9,017 thousand as at 31 December 2016 and to PLN 27,662 thousand as at 31 December 2015.

The appendix to the report of the Management Board on operations of the Capital Group contains a statement concerning the application of the corporate governance principles that includes components indicated in § 92(3) 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.

The Supervisory Board concludes that the aforementioned figures and factual circumstances contained in the report of the Management Board on operations of the Capital Group of ACTION S.A. in restructuring 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. CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The consolidated financial statements of the Capital Group of ACTION S.A. in restructuring were prepared 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 consolidated financial statements of the Group of ACTION S.A. in restructuring for the period ended 31 December 2016 comprise: consolidated statement of comprehensive income, consolidated statement of financial position, statement of changes in consolidated equity, consolidated cash flow statement and notes containing a description of the key accounting principles and selected explanatory notes.

In the period covered by the consolidated financial statements, the Group companies, excluding ACTION S.A. in restructuring, ACTION EUROPE GmbH, and LAPADO Handelsgesellschaft GmbH, kept their accounting books in compliance with the accounting policy (principles) laid down by the Accounting Act of 29 September 1994 and regulations issued thereunder. The consolidated financial statements contain adjustments not included in the accounting books of the Group entities implemented to ensure compliance of the financial statements of those entities with the IFRS. As of 1 January 2010, ACTION S.A. has been keeping its accounting books 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. ACTION EUROPE GmbH and LAPADO Handelsgesellschaft GmbH keep their accounting books in accordance with German accounting laws.

In accordance with the data contained in the consolidated financial statements of the Capital Group 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 attributable to the parent's shareholders of PLN -159,753 thousand and comprehensive income attributable to the parent's shareholders of PLN 3,164,837 thousand;
– the consolidated statement of financial position prepared as at 31 December 2016 shows total assets as well as total equity and liabilities of PLN 835,534 thousand;
– the statement of changes in the consolidated equity for the period from 1 January 2016 to 31 December 2016 shows a closing balance of PLN 176,727 thousand which means that the balance of equity decreased by PLN 182,909 thousand;
– the consolidated cash flow statement for the period from 1 January 2016 to 31 December 2016 shows a closing balance of PLN 152,557 thousand, i.e. an increase in net cash by PLN 114,494 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 emphasises also that the above figure results from the restructuring proceedings pending at the Company. The decline in results for 2016 is largely of a non-monetary nature. It is a consequence of a decision taken by the Management Board (taking into account the auditor's suggestion) to assume a very conservative approach in determining the result. In particular, 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 as follows: 1) costs of provisions recognised; 2) costs of impairment write-downs on financial assets; 3) losses related to the sale of goods in the course of remedial proceedings and direct costs of remedial proceedings in 2016; and 4) costs of write-downs on receivables. Detailed information on the above is contained in the annual periodical report published on 24 April 2017. 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 the 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.

As regards the Group's subsidiaries, the Management Board stated that the companies that earned profits decided to allocate them to the dividend payout, to the supplementary capital or to the coverage of previous years' losses. The companies that incurred losses decided to cover them with profits earned in future periods or by allocating funds from the supplementary capital.

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. BRIEF ASSESSMENT OF THE STANDING OF THE CAPITAL GROUP OF ACTION S.A. in restructuring

As at 31 December 2016, the Capital Group was composed of the following entities:

Parent company:
ACTION S.A. in restructuring with its registered office in Warsaw

Subsidiaries and associates:

SFK Sp. z o.o. in bankruptcy, with its registered office in Kraków – subsidiary (100%)
ACTINA Sp. z o.o., with its registered office in Warsaw – subsidiary (100%)
SFERIS Sp. z o.o., with its registered office in Warsaw – indirect subsidiary (99.89%) [1]
GRAM.PL Sp. z o.o., with its registered office in Warsaw – subsidiary (100%) [2]
ACTION GAMES LAB S.A. with its registered office in Zamienie – subsidiary (40%) [3]
ACTION CENTRUM EDUKACYJNE Sp. z o. o., with its registered office in Warsaw – associate (24.38%) [4]
SYSTEMS Sp. z o. o., with its registered office in Warsaw – indirect associate (24.38%) [5]
ACTIVEBRAND Sp. z o.o., with its registered office in Zamienie – subsidiary (100%) [6]
ACTION EUROPE GmbH, with its registered office in Braunschweig (Germany) – subsidiary (100%) [7]
RETAILWORLD Sp. z o.o., with its registered office in Stara Iwiczna – indirect subsidiary (99.89%) [8]
LAPADO Handelsgesellschaft GmbH, with its registered office in Potsdam (Germany) – indirect subsidiary (51%) [9]
ACTIONMED Sp. z o.o. with its registered office in Zamienie – subsidiary (100%) [10]
ACTION INNOVATIVE SOLUTIONS Sp. z o.o., with its registered office in Bielsko-Biała – subsidiary (51%) [11]
ACTION (GUANGZHOU) TRADING CO., LTD with its registered office in Guangzhou (China) – subsidiary (100%) [12]

[1] SFERIS Sp. z o.o., with its registered office in Warsaw, was consolidated as of 5 January 2007.
[2] GRAM.PL Sp. z o.o., with its registered office in Warsaw, was consolidated as of 28 May 2009, and on 18 December 2009 the share was increased to 80%. On 24 May 2010, the share was raised to 100% by way of an interest purchase agreement.
[3] ACTION GAMES LAB S.A., with its registered office in Zamienie, was incorporated and consolidated as of 12 December 2011.
[4] ACTION CENTRUM EDUKACYJNE Sp. z o.o., with its registered office in Warsaw, was measured using the equity method as of 1 October 2012.
[5] SYSTEMS Sp. z o.o., with its registered office in Warsaw, was consolidated as of 1 October 2012.
[6] ACTIVEBRAND Sp. z o.o., with its registered office in Zamienie, was incorporated on 3 September 2012.
[7] ACTION EUROPE GmbH, with its registered office in Braunschweig (Germany), was consolidated as of 8 July 2013. On 1 April 2014, by way of a purchase of non-controlling interests (33.33%), the share of ACTION S.A. was increased to 100%.
[8] RETAILWORLD Sp. z o.o., with its registered office in Stara Iwiczna, was consolidated as of 18 November 2013.
[9] LAPADO Handelsgesellschaft GmbH, with its registered office in Potsdam (Germany), was consolidated as of 1 January 2014.
[10] ACTIONMED Sp. z o.o., with its registered office in Zamienie, was consolidated as of 19 December 2014.
[11] ACTION INNOVATIVE SOLUTIONS Sp. z o.o., with its registered office in Bielsko-Biała, was consolidated as of 27 October 2015.
[12] ACTION (GUANGZHOU) TRADING CO., LTD, with its registered office in Guangzhou (China), was consolidated as of 1 July 2016.

Changes in the Group's composition during the reporting period:
In the reporting period, ACTION (GUANGZHOU) TRADING CO., LTD was incorporated.

Third-party interests in subsidiaries:

1. SFERIS Sp. z o.o. – 0.11%, of which: Piotr Bieliński 0.055%, Anna Bielińska 0.055%
2. LAPADO Handelsgesellschaft GmbH – 49% of interests held by Jacek Mońko
3. ACTION GAMES LAB S.A. – 60% of shares carrying rights to 75% of votes at the shareholders' meeting are held by Piotr Bieliński
4. ACTION INNOVATIVE SOLUTIONS Sp. z o.o. – 49% of shares are held by Piotr Olejak

The activity of ACTINA Sp. z o.o. is the wholesale of computer hardware. The core business of SFERIS Sp. z o.o. is the retail sale of computer hardware. The business activities of GRAM.PL Sp. z o.o. (computer games) are focused on online retail sales. This company is also involved in the wholesale trade in computer hardware. The business of SFK Sp. z o. o. in bankruptcy involves wholesale trade and advertising. In addition to advertising, in 2014 ACTION GAMES LAB S.A. started producing computer games. The main business profiles of ACTION CENTRUM EDUKACYJNE Sp. z o.o. and SYSTEMS Sp. z o.o. are training and IT services, and the rental of computer hardware. ACTIVEBRAND Sp. z o.o. is starting its business in the marketing services sector. ACTION EUROPE GmbH conducts distribution activities related to wholesale of IT products, consumer electronics and household items. RETAILWORLD Sp. z o.o. is a wholesaler of IT equipment and accessories for foreign customers. In January 2017, LAPADO Handelsgesellschaft GmbH filed a bankruptcy petition with the court. The activity of ACTIONMED Sp. z o.o. is the wholesale of IT hardware and medical accessories, and the sale of services. ACTION INNOVATIVE SOLUTIONS Sp. z o.o. started the manufacturing and sale of telecommunications equipment. ACTION (GUANGZHOU) TRADING CO., LTD has started commercial activities in the food industry in China.

The financial year 2016 was a less successful period of the Group's operations as compared to previous periods, due to the accumulation, over a relatively short period, of negative external factors related to tax decisions issued against the Company. As a result, the Company was forced to submit a motion to initiate the remedial proceedings. This event also had a further, negative impact on a majority of the Capital Group's entities. Irrespective of the above, separate activities of the tax authorities against a subsidiary, SFK Sp. z o.o., forced the management board of this company to file a bankruptcy petition which has been considered already in the current year. Since the opening of the remedial proceedings, the Company and the Group have continued to conduct their activities, and the Company has introduced restructuring procedures aimed at improving the Group's financial position. It should be concluded that the restructuring process is successful, however, it requires further, intensified efforts of the Management Board. 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 Company's enterprise and numerous obstacles encountered, in particular, in the initial phase of the restructuring proceedings. ACTION EUROPE GmbH is a company that stands out positively among all entities of the Capital Group (in particular taking into account the remedial proceedings pending in relation to the Company and consequences of this process).
The key assumption of the Group's policy is business flexibility and a continuous search for attractive growth areas. The Group will continue to sign new distribution agreements for the supply of hardware and software, and for the distribution of toys, power tools and medical equipment. Moreover, innovations regarding other products, including services, will be offered. The Management Board of the parent takes decisions with respect to changes in the Capital Group's structure in order to optimise the Group's performance while maintaining the maximum transparency of the Group. The Group assumes maintaining the current policy to ensure a sustained increase in the value of own brands as well as continued growth of the Group – also by way of entering into equity transactions. In subsequent years, the ACTION S.A. Capital Group intends to actively seek investment objectives in foreign markets.

As regards the assessment of the internal control system and the risk management system at the Capital Group, it should be emphasised the internal control standards of subsidiaries (described in the Supervisory Board's report on the Company) are implemented primarily by way of ongoing business reporting to the Company and by applying a practice according to which the same people act as management board members in the Company and in subsidiaries. ACTION GAMES LAB S.A. also has a supervisory board. This way, the Company supervises the operations of its subsidiaries on an on-going basis.

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 Group is stable.

Warsaw, 15 May 2017

Iwona Bocianowska ....

Karol Orzechowski ....

Piotr Chajderowski ………………………………

Krzysztof Kaczmarczyk ....

Marek Jakubowski ....