

## **Comarch S.A. Supervisory Board Report 2017**

In 2017, there were the following members of the Supervisory Board:

- Elżbieta Filipiak – Chairman,
- Maciej Brzeziński – Vice-Chairman,
- Danuta Drobnik – Member,
- Wojciech Kucharzyk – Member,
- Anna Ławrynowicz – Member,
- Anna Pruska – Member,
- Robert Bednarski – Member.

The Supervisory Board sat 5 times in 2017 (6<sup>th</sup> of March, 15<sup>th</sup> of May, 29<sup>th</sup> of May, 11<sup>th</sup> of September, 27<sup>th</sup> of December). Additionally, the Audit Committee sat on 6<sup>th</sup> of March, 15<sup>th</sup> of May, 27<sup>th</sup> of December.

The major subjects addressed by the Supervisory Board at the sittings were:

- a) monitoring and analysis of the financial condition and organization at the company and Comarch Group,
- b) assessment of the Management Board's progress in implementing the company's strategy,
- c) assignation of business purposes for members of the Management Board and assessment of their implementation,
- d) acquaintance with activities of the selected business sectors at the company and Group,
- e) risk analysis and assessment for the company's and Group's operations,
- f) supervision of the internal system control in the Company and Group,
- g) formal-legal issues, including approval of the Rules for the Audit Committee,
- h) assessment and approving the financial statements of the Company and Group.

The Supervisory Board's detailed scope of activities and the resolution considered in 2017 are set out in detail in the records from its sittings, which are to be found at the company's headquarters in Krakow.

In connection with detailed principle no. II.Z.11. arising from the second part of the "Best Practice for GPW Listed Companies 2016", with the resolution 10/05/2017 of the 29<sup>th</sup> of May, 2017 the Supervisory Board of Comarch S.A. recorded a positive verdict with respect to the draft resolutions of the Annual General Shareholders' Meeting which took place on the 27<sup>th</sup> of June, 2017.

In line with detailed principle no. II.Z.1.14 arising from the first part of the "Best Practice for GPW Listed Companies 2016", Comarch S.A.'s 'Supervisory Board Report and Company's Assessment regarding 2016' was published at [www.comarch.pl](http://www.comarch.pl) (English version at [www.comarch.com](http://www.comarch.com)). It included information on the work of its committees and an assessment of the company's situation with regard to an appraisal of the internal controlling and risk management systems vital to the company. Members of the Supervisory Board make a written declaration of the independence, The Supervisory

Board assessed if there are relationships or circumstances, that may influence on the independence of a particular member of the Supervisory Board and the Supervisory Board decided, that at least two members of the Supervisory Board meets the independence criteria set out in the detailed principle number II.Z.4 of the “Best Practice for GPW Listed Companies 2016”.

With reference to the scope of the report, the Supervisory Board monitored the current performance of the company and, gave its expert opinion concerning Comarch S.A.’s planned operations and those already in progress. In particular, the Supervisory Board reviewed the quarterly, six-monthly and annual (consolidated) financial statements of Comarch S.A. and the Comarch Group. With the publication of each of the financial reports there followed a sitting of the Supervisory Board. At these meetings the Board analyzed the scope, rectitude, correctness and transparency of the data (including the financial data) presented by the company. The Supervisory Board learned in detail of financial situation of the particular company’s business sectors. In this respect, the company’s Management Board and authorized employees provided the Supervisory Board with access to documents and other information sources, prepared the necessary presentations for the Supervisory Board and were forthcoming with essential explanations and clarifications regarding the company’s financial situation, activities undertaken by the company. The Supervisory Board had a meeting with representatives of the entity entitled to audit and review the (consolidated) financial statements of Comarch S.A. and the Comarch Capital Group. The Supervisory Board learned of the company’s organizational structure and made a recommendation in relation to its improvement. The Supervisory Board learned also of the investment realized by the company and made a recommendation in relation to them.

It is the opinion of the Supervisory Board that the accounting methods adopted by the company and the Capital Group have been applied in accordance with the provisions of the law. It is the opinion of the Supervisory Board that cooperation with the Management Board of Comarch S.A. has been entirely successful and the Management Board has presented the necessary information correctly, clearly and with rectitude.

In 2017, BDO Sp. z o. o. was the entity authorized to audit and review the financial statements of the company. The resolution of the Supervisory Board regarding selection of an auditor to provide auditing services for Comarch S.A.’s financial statements for 2017 and 2018 was concluded on the 29<sup>th</sup> of May, 2017. It is the opinion of the Supervisory Board that the entity authorized to audit and review the financial statements of Comarch S.A. and the Comarch Capital Group was selected within the terms of the prevailing law, and that the statutory auditors conducting them met the conditions required for expressing an unbiased and independent opinion in compliance with Polish law.

According to the Supervisory Board, the composition and diversity of the competence of the members of the Supervisory Board allow to effective and proper supervision of all areas of the company’s operations. The members of Supervisory Board are diverse both in terms of gender, age and education. They all have the knowledge and skills backed by years of professional experience. At least two members of the Supervisory Board meets the independence criteria set out in the detailed principle number II.Z.4 of the “Best Practice for GPW Listed Companies 2016”.

The Supervisory Board of Comarch S.A. assesses its work in 2017 as effective. Members of the Board fulfilled their duties with commitment, participating in most cases, at full strength in its meetings.

From 1<sup>st</sup> of January, 2017 to 31<sup>st</sup> of December, 2017, the Audit Committee (the equivalent of the Audit Committee within the meaning of Annex I to the Commission Recommendation of 15<sup>th</sup> of February, 2005 related to the no-executive directors (...)), consisted of: Danuta Drobniak as Chairman of the Audit Committee, Elżbieta Filipiak as a member of the Audit Committee and Robert Bednarski as a member of the Audit Committee. According to information possessed by the Company, two members of the Audit Committee fulfil independency conditions, including the Chairman and at least one of them has qualifications in accountancy or financial audit. At least one of them has the knowledge and skills in the sector in which the Company operates.

In 2017, tasks of the Audit Committee were, in particular:

- 1) Monitoring the process of financial reporting;
- 2) Monitoring the effectiveness of internal control systems, internal audits and risk management;
- 3) Monitoring financial reviews;
- 4) Monitoring the independency of the export auditor and the entity entitled to audit financial statements;

With regard to the powers of the Committee, the Committee requested or demanded the participation of additional people in its sittings, such as members of the Management Board or auditors.

### **The assessment of the company's compliance with the disclosure obligations concerning compliance with the corporate governance principles**

In the opinion of the Supervisory Board, the Company in 2017 correctly fulfilled the disclosure obligations concerning compliance with the corporate governance principles defined in the Exchange Rules and the regulations on current and periodic reports published by issuers of securities.

Since January 2016, the Company has been following the rules of corporate governance which were adopted on 13<sup>th</sup> of October, 2015 by the Council of the Warsaw Stock Exchange in its resolution No. 26/1413/2015 on the adoption of a new code of corporate governance principles entitled „Dobre Praktyki Spółek Notowanych na GPW 2016” (Best Practice for GPW Listed Companies 2016). Comarch S.A. has published a report on its implementation of the principles and recommendations resulting from the new code of corporate governance principles and has posted the relevant information on the Company's website. According to the published report, the Company does not apply the Recommendation number IV.R.2 and detailed principle number VI.Z.4.

### **The assessment of the rationality of the Company's policy referred to sponsorship and charity**

- Comarch S.A. for years takes a number of pro-social activities, among others, by active supporting the sport, taking patronage of cultural events, supporting the education and development of science and engaging in helping the most needy.

The Supervisory Board assesses positively conducted by Comarch S.A. policy on sponsorship and charitable activities, realized among others by: cooperation of with the St. Mary's church in Kraków under the project of revitalizing the musical space in the church and organization of the of the St. Mary's Organ Festival.

- Sponsoring the concert of Last Night of the Proms.
- Organization of 2 editions of a grant competition known as #ComarchCares, in which groups of Comarch employees together with selected institution could submit projects supporting a local communities and contributing to solving the problems in areas such as: new technologies, ecology and animal protection, culture, education, sport, addiction prevention, activities for people with disabilities, marginalizationed children and young people, seniors.
- Supporting the initiatives of the employees of Comarch the purpose of which is helping the sick and the poor.
- Organizing collections of property for shelters and foundations helping homeless animals.
- 250 seedlings of yews were planted by Comarch S.A. employees together with their families in the Florianka Garden in the Planty Park in Krakow.
- joined the organization of the Małopolska Noc Naukowców.
- Promoting healthy and active lifestyle among employees by encouraging employees to come by bicycle to work, providing bicycle infrastructure (dedicated parking spaces for bicycles, locker rooms, mobile workshops, service campaigns), support for employees participation in sports competitions, running events, organization of ComarchONrun running company races, ComarchONbike cycling races and ComarchONmove.

In the opinion of the Supervisory Board, the active operations taken by the Company in this respect are reasonable, benefit to society, and have a positive impact on the image of the Company.

**Annex no. 2 to Resolution no. 07/05/2018  
of Comarch S.A. Supervisory Board**

**Assessment of the Company's Situation  
with Regard to an Appraisal of the Internal Controlling and Risk Management  
Systems Vital to the Company, Compliance and Internal Audit Function**

The Supervisory Board delivered a positive opinion concerning the financial results of the Comarch S.A. in 2017 and its current financial standing. In 2017 Company achieved satisfactory financial results despite of difficult market conditions and despite of increased operating costs. In the previous year, revenue from sales increased by PLN 6.3 million compared to 2016 and amounted to PLN 755.5 million. The operating profit of the company amounted to PLN 40.5 million, while the net profit amounted to PLN 39.3 million. In 2017, the EBIT margin reached +5.4%, while net margin amounted to +5.2%.

The Supervisory Board delivered a positive opinion to continue, in 2017, investment in new IT products and improvement of current products. Expenditures on research and development exceeded 19.1% of the company's sales revenue, the company allocated mainly its own funds. The Company intensively developed a new generation of loyalty systems and ERP systems, solutions related to the Smart City. The Company also continued R&D works in the field of IT solutions for medical industry (Telemedicine, including project "The City of Health" and HIS systems) and related to the development of proprietary solutions in the fields of hardware and services based thereon (Internet of Things). The Company also continued to improve the other products offered. In 2017, the Company focused on development of service-oriented IT solutions – Comarch is one of the market leaders in this field. In 2017, a private, unified and flexible computing cloud with the highest security standards of Comarch Enterprise Cloud Platform (IaaS and PaaS) was launched based on the Comarch Data Center infrastructure. Thanks to this solution, Comarch clients will be able to benefit from sharing IT infrastructure costs, increase efficiency, full control over their resources while optimizing the reliability of access to corporate data and maximizing the flexibility of their IT solutions. In the opinion of the Supervisory Board the investment in human capital is an essential element for the further development of the Group. At the end of 2017, the Company hired 4,303 employees in Kraków and other branches in Poland and was the largest Polish employer among IT companies. The annual student internship program was particularly successful – Comarch is one of the employers of a first choice in the domestic labor market in the IT industry. Thanks to the completion of subsequent infrastructural investments such as the construction of office building in Kraków, the Company could significantly increase the quality of offered workplaces in the past year. It is the opinion of the Supervisory Board that the company has no problems hiring the appropriate number of qualified employees, however the more and more difficult situation on the labor market will have an influence on the company's situation in the following periods.

The Supervisory Board considers it appropriate to continue to implement a growth strategy, based on diversification of activities between IT sectors, development and disposal on the global market of proprietary products. With a wide and comprehensive range of modern IT solutions and high quality services, Comarch S.A. is now regarded as a first of the leading providers of IT products in Poland and one of the top software

producer at the international markets. The Company is able to successfully acquire and implement the largest IT contracts, an example of which is the choice in the past year of Comarch for the contractor to provide support services, operation and maintenance of the Comprehensive Information System ZUS, that is The Polish Social Insurance Institution. The Supervisory Board confirmed a rightness of setting up a new subsidiaries. Significant expenditures incurred for several years in the development and maintenance of the global sales network (Global Business Center), have contributed to the international brand and Comarch offer recognition, which effectively supports offering the Comarch's solutions in new markets. In the previous year, the Comarch S.A. established new subsidiaries: Comarch Japan KK with its registered office in Tokyo and Comarch Saudi Arabia Co. with its registered office in Riyadh, as well as the acquired company Geopolis sp. z o.o., producer of GIS systems with its registered office in Toruń.

The Supervisory Board, through the Audit Committee, monitors the effectiveness of the internal controlling and risk management systems, compliance and internal audit function. Once a year, a representative of the Management Board presents a description and assessment of effectiveness of the Internal Controlling to the Audit Committee. The Audit Committee assessed the effectiveness of the internal controlling and didn't identify a need for organizational separating the internal auditing.

In 2017, the Supervisory Board also conducted continuous analyses of risk areas connected with the company's operations as well as assessing the way these risks were being managed by the Management Board.

The most significant operational risks in 2017 were identified as follows:

- a) Risk associated with R&D (creating new proprietary software products);
- b) The risk associated with long-term contracts;
- c) Risk associated with failing to fulfil the terms of contracts and the resulting necessity to pay contractual penalties, and of the use by customers of the guarantees of satisfactory contract performance given them;
- d) Risk presented by the political and legal environment connected with export contracts;
- e) Risk of staff fluctuation, the risk of a lack of opportunities to employing the sufficient number of qualified employees, the risk of increased labor costs;
- f) Risks related to international terrorism, hindering the delegating of workers in corporate travel in some parts of the world.

With regard to financial risk, the Supervisory Board detects the following threats:

- a) Credit risk of Comarch's contractors;
- b) Interest rate fluctuations which affect the price of costs of bank credits;
- c) Fluctuations in exchange rate levels, especially EUR/PLN, USD/PLN, GBP/PLN, EUR/USD and BRL/PLN which effect profitability of export sales;
- d) Financial liquidity risk and the increased expectations of customers within the scope of financing IT projects by IT providers, related to broadening the sales of products and cloud computing services.

The Supervisory Board considers the Management Board competent to correctly identify the company's operational risks and manage them effectively. The financial statements present a true and accurate account of the Company's situation.

The Supervisory Board particularly appreciates the consistent implementation of the Company's mission of selling Polish engineers' innovative technical concept worldwide. The Supervisory Board also draws attention to the fact that beyond business activities, Comarch S.A. also conducts pro-social activities, supports non-governmental organizations and charities events, is a patron of culture, arts and sports. In 2017, Comarch S.A. became a cofounder of new organs and a project to revitalize the musical space at the St. Mary's Church in Krakow.

**Annex no. 3 to Resolution no. 07/05/2018  
of Comarch S.A. Supervisory Board**

**Assessment of the Comarch Group's Situation  
with Regard to an Appraisal of the Internal Controlling and Risk Management  
Systems, Compliance and Internal Audit Function**

The Supervisory Board delivered a positive opinion concerning the financial results of the Comarch Group in 2017 and its current financial standing despite of difficult market conditions and despite of increased operating costs. In the past year, the revenues from sales remained at the similar level to that achieved in 2016 and amounted to PLN 1,102.5 million. Operating profit amounted to PLN 35.8 million, while net profit was PLN 43.5 million. The Group's EBIT margin amounted to 3.2%, while the net margin to 3.8%.

The Supervisory Board positively assesses investments in new products and improvement of existing IT products made by the Comarch Group in 2017. Expenditure on research and development has now exceeded 16.3% of sales revenue, which has been financed mostly from Comarch's own resources. The Comarch Group intensively developed a new generation of loyalty systems and ERP systems, solutions related to the Smart City. The Group also continued R&D works in the field of IT solutions for medical industry (Telemedicine, including project "The City of Health" and HIS systems) and related to the development of proprietary solutions in the fields of hardware and services based thereon (Internet of Things). The Group also continued to improve the other products offered. In 2017, the Group focused on development of service-oriented IT solutions – Comarch is one of the market leaders in this field. In 2017, a private, unified and flexible computing cloud with the highest security standards of Comarch Enterprise Cloud Platform (IaaS and PaaS) was launched based on the Comarch Data Center infrastructure. Thanks to this solution, Comarch clients will be able to benefit from sharing IT infrastructure costs, increase efficiency, full control over their resources while optimizing the reliability of access to corporate data and maximizing the flexibility of their IT solutions. In connection with this project, the Group expanded its infrastructure, during the last year the investment in modern Comarch Data Center in Lille in France was completed. The Supervisory Board indicates that investment in human capital is an essential element for the further development of the Group. At the end of 2017, the Comarch Group hired 5,541 employees worldwide and it is the largest employer among IT companies in Poland. The annual student internship program has brought particularly positive results, thanks to which the Comarch Group is perceived as one of the first choice employers on the domestic labor market in the IT industry. Thanks to the completion of subsequent infrastructural investments such as the construction of office buildings in Kraków and Łódź, the Group could significantly increase the quality of offered workplaces in the past year.

It is the opinion of the Supervisory Board that the company has no problems hiring the appropriate number of qualified employees, however the more and more difficult situation on the labor market will have an influence on the company's situation in the following periods.

The Supervisory Board considers it appropriate to continue to implement a growth strategy, based on diversification of activities between IT sectors, development and



disposal on the global market of proprietary products. With a wide and comprehensive range of modern IT solutions and high quality services, Comarch is now regarded as one of the top software producers on the international markets. The Group is able to successfully acquire and implement the largest IT contracts, an example of which is the choice in the past year of Comarch for the contractor to provide support services, operation and maintenance of the Comprehensive Information System ZUS, that is The Polish Social Insurance Institution). In 2017, the Group successfully continued its growth strategy based on the diversification of its operations between various industry segments, development of its own products and their sale on the global market. The Management Board of Comarch emphasizes that the Group has been incurring significant expenditures in the development and maintenance of the global sales network (Global Business Center) for several years, thanks to which international brand recognition and Comarch offer are growing, which effectively supports offering the Group's solutions in new markets. In the previous year, the Group established new subsidiaries: Comarch Japan KK with its registered office in Tokyo and Comarch Saudi Arabia Co. with its registered office in Riyadh, as well as the acquired company Geopolis sp. z o.o., producer of GIS systems with its registered office in Toruń.

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