Solutions for demanding business.

ASSECO SOUTH EASTERN EUROPE

ANNUAL REPORT OF ASSECO SOUTH EASTERN EUROPE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

CONSOLIDATED FINANCIAL STATEMENTS OF ASSECO SOUTH EASTERN EUROPE GROUP INCLUDING THE OPINION OF INDEPENDENT CERTIFIED AUDITORS

Rzeszów, 17 February 2017

CONSOLIDATED FINANCIAL STATEMENTS OF ASSECO SOUTH EASTERN EUROPE GROUP INCLUDING THE OPINION OF INDEPENDENT CERTIFIED AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2016

Table of contents **Page**

CONSOLIDATED FINANCIAL STATEMENTS OF ASSECO SOUTH EASTERN EUROPE GROUP INCLUDING THE OPINION OF INDEPENDENT CERTIFIED AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2016

These financial statements have been approved for publication by the Management Board of Asseco South Eastern Europe S.A.

Management Board of Asseco South Eastern Europe S.A.:

Piotr Jeleński	President of the Management Board
Miljan Mališ	Member of the Management Board
Miodrag Mirčetić	Member of the Management Board
Marcin Rulnicki	Member of the Management Board

FINANCIAL HIGHLIGHTS OF ASSECO SOUTH EASTERN EUROPE GROUP

		Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
		PLN'000	**PLN'000**	**EUR'000**	**EUR'000**
I.	Sales revenues	570,634	487,205	130,411	116,423
II.	Operating profit	56,780	53,097	12,976	12,688
III.	Pre-tax profit	60,967	53,664	13,933	12,824
IV.	Net profit for the reporting period	51,548	43,502	11,781	10,395
V.	Net profit attributable to Shareholders of the Parent Company	**51,468**	**43,580**	**11,762**	**10,414**
VI.	Net cash provided by (used in) operating activities	87,681	75,279	20,038	17,989
VII.	Net cash provided by (used in) investing activities	(38,287)	(41,583)	(8,750)	(9,937)
VIII.	Net cash provided by (used in) financing activities	(29,545)	(20,467)	(6,752)	(4,891)
IX.	Cash and cash equivalents at the end of period	119,546	101,075	27,022	23,718
X.	Basic earnings per ordinary share for the reporting period attributable to Shareholders of the Parent Company (in PLN/EUR)	0.99	0.84	0.23	0.20
XI.	Diluted earnings per ordinary share for the reporting period attributable to Shareholders of the Parent Company (in PLN/EUR)	0.99	0.84	0.23	0.20

The financial highlights disclosed in these consolidated financial statements were translated into EUR in the following way:

- items of the consolidated income statement and consolidated statement of cash flows have been translated into EUR at the arithmetic average of mid exchange rates as published by the National Bank of Poland and in effect on the last day of each month. These exchange rates were as follows:
  - in the period from 1 January 2016 to 31 December 2016: EUR 1 = PLN 4.3757
  - in the period from 1 January 2015 to 31 December 2015: EUR 1 = PLN 4.1848
- the Group's cash and cash equivalents as at the end of the reporting period and the comparable period of the previous year have been translated into EUR at the mid exchange rates as published by the National Bank of Poland. These exchange rates were as follows:
  - exchange rate effective on 31 December 2016: EUR 1 = PLN 4.4240
  - exchange rate effective on 31 December 2015: EUR 1 = PLN 4.2615

All figures in thousands of PLN, unless stated otherwise

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Sales revenues	1	**570,634**	**487,205**
Cost of sales (-)	2	(434,285)	(361,781)
Gross profit on sales		**136,349**	**125,424**
Selling costs (-)	2	(38,121)	(37,413)
General and administrative expenses (-)	2	(42,338)	(35,999)
Net profit on sales		**55,890**	**52,012**
Other operating income	3	1,769	2,545
Other operating expenses (-)	3	(1,247)	(1,916)
Share of profits of associates and joint ventures		*368*	*456*
Operating profit		**56,780**	**53,097**
Financial income	4	8,284	4,142
Financial expenses (-)	4	(4,097)	(3,575)
Pre-tax profit		**60,967**	**53,664**
Corporate income tax (current and deferred tax expense)	5	(9,419)	(10,162)
Net profit for the reporting period		**51,548**	**43,502**
Attributable to:			
Shareholders of the Parent Company		**51,468**	**43,580**
Non-controlling interests		80	(78)
Consolidated earnings per share for the reporting period attributable to Shareholders of ASEE S.A. (in PLN)			
Basic consolidated earnings per share for the reporting period	6	0.99	0.84
Diluted consolidated earnings per share for the reporting period	6	0.99	0.84

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Net profit for the reporting period	**51,548**	**43,502**
Other comprehensive income, of which:	**12,313**	**(12,516)**
Components that may be reclassified to profit or loss	*12,313*	*(12,516)*
Exchange differences on translation of foreign operations	*12,313*	*(12,516)*
TOTAL COMPREHENSIVE INCOME FOR THE REPORTING PERIOD	**63,861**	**30,986**
Attributable to:		
Shareholders of the Parent Company	*63,781*	*31,061*
Non-controlling interests	*80*	*(75)*

All figures in thousands of PLN, unless stated otherwise

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31 Dec. 2016 (audited)	31 Dec. 2015 (restated)
Non-current assets		**642,938**	**613,842**
Property, plant and equipment	8	102,161	86,369
Investment property		1,160	1,160
Intangible assets	9	30,180	33,566
Goodwill	10	505,634	488,566
Investments accounted for using the equity method		-	1,028
Long-term financial assets	13	162	177
Long-term receivables		385	607
Deferred tax assets	5	2,621	1,864
Long-term prepayments and accrued income	15	635	505
Current assets		**303,510**	**235,154**
Inventories	11	23,474	15,506
Prepayments and accrued income	15	14,380	12,234
Trade receivables	12	126,498	83,683
Corporate income tax receivable	12	166	91
Other receivables from the state and local budgets	12	1,002	904
Receivables arising from valuation of IT contracts	24	11,722	15,951
Other receivables	12	3,632	2,997
Short-term financial assets	13	3,090	2,713
Cash and short-term deposits	14	119,546	101,075
TOTAL ASSETS		**946,448**	**848,996**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EQUITY AND LIABILITIES	Note	31 Dec. 2016 (audited)	31 Dec. 2015 (restated)
Equity (attributable to shareholders of the Parent Company)		**730,201**	**688,275**
Share capital	16	518,942	518,942
Share premium	17	38,825	38,825
Exchange differences on translation of foreign operations		(66,426)	(78,739)
Retained earnings and current net profit		238,860	209,247
Non-controlling interests	18	2,210	**-**
Total equity		**732,411**	**688,275**
Non-current liabilities		**29,279**	**29,376**
Interest-bearing bank loans and borrowings	21	21,807	24,849
Deferred tax liabilities	5	1,328	684
Long-term trade payables and other liabilities		696	-
Long-term provisions	19	1,274	1,156
Long-term financial liabilities	20	2,756	2,023
Long-term deferred income	23	1,418	664
Current liabilities		**184,758**	**131,345**
Interest-bearing bank loans and borrowings	21	22,789	20,480
Trade payables	22	68,674	47,001
Corporate income tax payable	22	2,539	1,032
Other liabilities to the state and local budgets	22	22,143	13,723
Financial liabilities	20	1,198	750
Liabilities and provisions arising from valuation of IT contracts (-)	24	7,811	4,562
Other liabilities	22	23,373	15,348
Short-term provisions	19	864	1,520
Deferred income	23	21,752	12,532
Accruals	23	13,615	14,397
TOTAL LIABILITIES		**214,037**	**160,721**
TOTAL EQUITY AND LIABILITIES		**946,448**	**848,996**

All figures in thousands of PLN, unless stated otherwise

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Share capital	Share premium	Exchange differences on translation of foreign operations	Retained earnings and current net profit	Equity attributable to shareholders of the Parent Company	Non-controlling interests	Total equity
As at 1 January 2016	**518,942**	**38,825**	**(78,739)**	**209,247**	**688,275**	**-**	**688,275**
Net profit (loss) for the reporting period	-	-	-	51,468	**51,468**	80	**51,548**
Other comprehensive income	-	-	12,313	-	**12,313**	-	**12,313**
Total comprehensive income for the reporting period	**-**	**-**	**12,313**	**51,468**	**63,781**	**80**	**63,861**
Changes in the Group structure, of which:	**-**	**-**	**-**	***(59)***	***(59)***	***2,130***	***2,071***
Acquisition of shares in a subsidiary	-	-	-	-	**-**	*5,063*	***5,063***
Acquisition of non-controlling interests	-	-	-	*(59)*	***(59)***	*(2,933)*	***(2,992)***
Dividend	-	-	-	(21,796)	**(21,796)**	-	**(21,796)**
As at 31 December 2016 **(audited)**	**518,942**	**38,825**	**(66,426)**	**238,860**	**730,201**	**2,210**	**732,411**

for the year ended 31 December 2015

	Share capital	Share premium	Exchange differences on translation of foreign operations	Retained earnings and current net profit	Equity attributable to shareholders of the Parent Company	Non-controlling interests	Total equity
As at 1 January 2015	**518,942**	**38,825**	**(66,220)**	**186,425**	**677,972**	**162**	**678,134**
Net profit (loss) for the reporting period	-	-	-	43,580	**43,580**	(78)	**43,502**
Other comprehensive income	-	-	(12,519)	-	**(12,519)**	3	**(12,516)**
Total comprehensive income for the reporting period	**-**	**-**	**(12,519)**	**43,580**	**31,061**	**(75)**	**30,986**
Dividend	-	-	-	(20,758)	**(20,758)**	(87)	**(20,845)**
As at 31 December 2015 **(restated)**	**518,942**	**38,825**	**(78,739)**	**209,247**	**688,275**	**-**	**688,275**

All figures in thousands of PLN, unless stated otherwise

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Cash flows – operating activities			
Pre-tax profit		60,967	53,664
Total adjustments:		**34,562**	**30,647**
Depreciation and amortization		37,250	30,299
Change in inventories		(13,224)	(2,284)
Change in receivables		(33,229)	8,987
Change in liabilities, accruals and provisions		47,537	(8,003)
Interest income and expenses		714	194
Gain/Loss on foreign exchange differences		(920)	1,175
Gain/Loss on investing activities		(3,560)	324
Other		(6)	(45)
Net cash generated from operating activities		**95,529**	**84,311**
Corporate income tax paid		(7,848)	(9,032)
Net cash provided by (used in) operating activities		**87,681**	**75,279**
Cash flows – investing activities			
Disposal of property, plant and equipment and intangible assets		1,445	1,220
Acquisition of property, plant and equipment, and intangible assets	8.9	(30,256)	(38,519)
Expenditures for development projects	9	(5,245)	(5,188)
Expenditures for the acquisition of subsidiaries, less cash acquired	10.27	(4,821)	(1,686)
Redemption of shares in a joint venture		-	839
Disposal of financial instruments carried at fair value through profit or loss	13	16,156	9,567
Acquisition of financial instruments carried at fair value through profit or loss	13	(16,669)	(11,985)
Bank deposits withdrawn	13	69	12,366
Bank deposits made	13	(4)	(9,816)
Loans collected	13	87	330
Loans granted	13	(124)	(321)
Interest received		730	1,060
Dividends received		344	554
Other		1	(4)
Net cash provided by (used in) investing activities		**(38,287)**	**(41,583)**

	Note	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Cash flows – financing activities			
Proceeds from (repayments of) short-term bank loans and borrowings		175	393
Proceeds from other bank loans and borrowings	21	12,636	17,807
Repayments of other bank loans and borrowings	21	(15,326)	(15,771)
Finance lease liabilities paid		(968)	(617)
Dividends paid out to shareholders of the Parent Company	7	(21,796)	(20,757)
Dividends paid out to non-controlling shareholders	18	-	(87)
Expenditures for the acquisition of non-controlling interests	10.27	(2,970)	-
Interest paid		(1,296)	(1,435)
Net cash provided by (used in) financing activities		**(29,545)**	**(20,467)**
Net increase/(decrease) in cash and cash equivalents		19,849	13,229
Net foreign exchange differences		(1,659)	(1,478)
Cash and cash equivalents as at 1 January	14	99,868	88,117
Cash and cash equivalents as at 31 December	**14**	**118,058**	**99,868**

All figures in thousands of PLN, unless stated otherwise

SUPPLEMENTARY INFORMATION AND EXPLANATORY NOTES

I. GENERAL INFORMATION

Asseco South Eastern Europe Group (the "Group", "ASEE Group", "ASEE") is a group of companies, the Parent Company of which in Asseco South Eastern Europe S.A. (the "Parent Company", "Company", "Issuer", "ASEE S.A.") seated at 14 Olchowa St., Rzeszów, Poland.

The Parent Company Asseco South Eastern Europe S.A. was established on 10 April 2007. The Company has been listed on the main market of the Warsaw Stock Exchange since 28 October 2009.

ASEE S.A. is the Parent Company of Asseco South Eastern Europe Group. The Parent Company shall operate within the territory of the Republic of Poland as well as abroad. The time of duration of both the Parent Company and the entities incorporated in the Group is indefinite.

Asseco South Eastern Europe Group is engaged in the sale of its own and third-party software as well as in the provision of implementation, integration and outsourcing services. The Group is a provider of IT solutions, authentication solutions and online payment settlement systems, while it also delivers and performs maintenance of ATMs and POS terminals, and provides integration and implementation services for IT systems and hardware. The Group conducts business operations in the markets of Poland, South Eastern Europe, and Turkey.

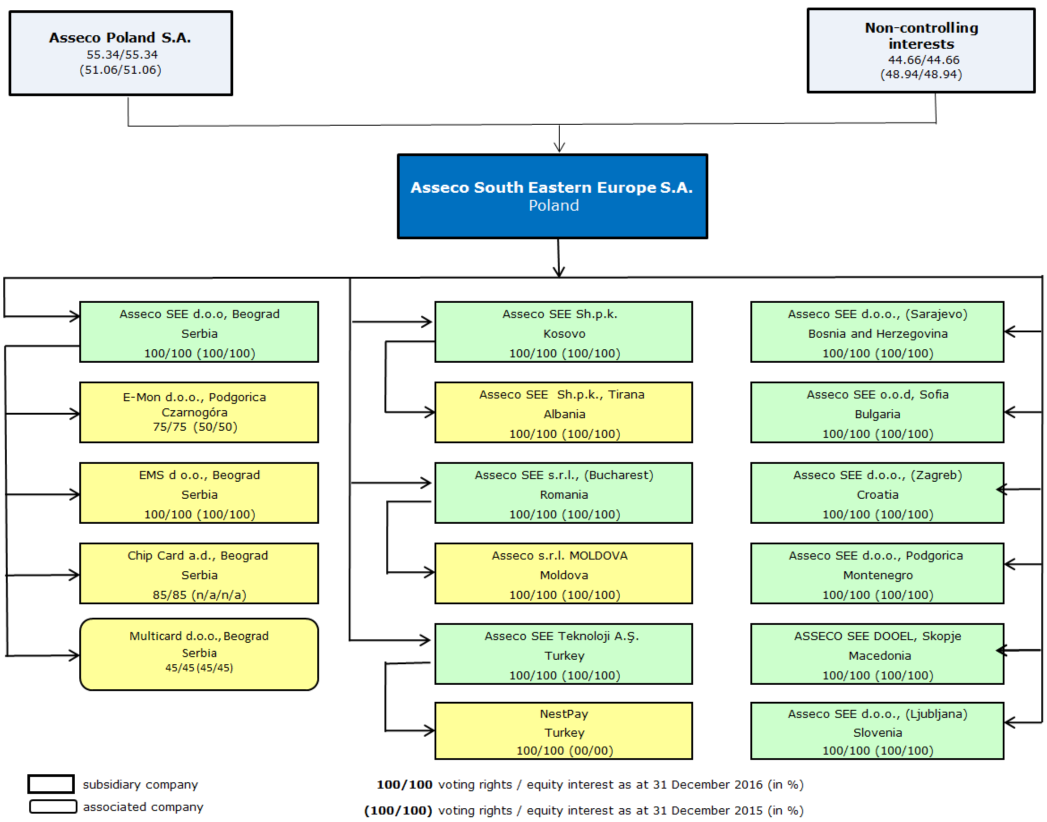
The scope of Asseco South Eastern Europe Group's core business broken down by relevant segments is described in section V of these consolidated financial statements.

These consolidated financial statements cover the year ended 31 December 2016 and contain comparable data for the year ended 31 December 2015.

The Group draws up its financial statements in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union.

These consolidated financial statements for the year ended 31 December 2016 have been approved for publication by the Management Board on 17 February 2017.

II. ORGANIZATIONAL STRUCTURE OF ASSECO SOUTH EASTERN EUROPE GROUP



The chart above presents the structure of ASEE Group along with equity interests and voting rights at the general meetings of shareholders/partners as at 31 December 2016.

Both as at 31 December 2016 and 31 December 2015, voting rights held by the Group in ASEE Group companies were equivalent to the Group's equity interests in these entities.

Changes in the Group's composition have been described in explanatory note 30 to these consolidated financial statements.

III. COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF ASEE S.A. AND THEIR COMMITTEES

As at 31 December 2016 as well as on the date of publication of this report, i.e. on 17 February 2017, the Company's Management Board, Supervisory Board and Audit Committee were composed of the following persons:

Supervisory Board	Management Board	Audit Committee
Adam Góral	Piotr Jeleński	Artur Kucharski
Jacek Duch	Miljan Mališ	Jacek Duch
Jan Dauman	Miodrag Mirčetić	Gabriela Żukowicz
Artur Kucharski	Marcin Rulnicki	
Przemysław Sęczkowski		
Gabriela Żukowicz		

During the reporting period, the compositions of the Company's Management Board, Supervisory Board and Audit Committee changed as follows:

On 10 February 2016, the Company received from Mr. Andrzej Mauberg a letter of resignation from the position of Member of the Supervisory Board, effective from 26 February 2016.

On 31 March 2016, Mr. Artur Kucharski was appointed as Member of the Supervisory Board of ASEE S.A. and subsequently, on 12 May 2016, as Chairman of the Audit Committee.

On 7 November 2016, the Company received from Mr. Mihail Petreski a letter of resignation from the position of Member of the Supervisory Board, effective from 31 December 2016.

As at 31 December 2015, the Company's Management Board, Supervisory Board and Audit Committee were composed of the following persons:

Supervisory Board	Management Board	Audit Committee
Adam Góral	Piotr Jeleński	Andrzej Mauberg
Jacek Duch	Miljan Mališ	Jacek Duch
Jan Dauman	Miodrag Mirčetić	Gabriela Żukowicz
Andrzej Mauberg	Marcin Rulnicki	
Mihail Petreski		
Przemysław Sęczkowski		
Gabriela Żukowicz		

IV. ACCOUNTING POLICIES APPLIED WHEN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis for the preparation of consolidated financial statements

The consolidated financial statements were prepared in accordance with the historical cost convention, except for derivative financial instruments and assets that are carried at fair value through profit or loss.

The presentation currency of these consolidated financial statements is the Polish zloty (PLN), and all figures are presented in thousands of zlotys (PLN'000), unless stated otherwise.

These consolidated financial statements were prepared on a going-concern basis, assuming the Group, Parent Company as well as its subsidiaries will continue their business activities in the foreseeable future.

Till the date of approving these financial statements, we have not observed any circumstances that would threaten the Company and the Group companies' ability to continue as going concerns for at least 12 months after the reporting period.

2. Compliance statement

These consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards as endorsed by the European Union.

Some of the Group companies maintain their accounting books in accordance with the accounting policies set forth in their respective local regulations. The consolidated financial statements include adjustments not disclosed in the accounting books of the Group's entities, which were introduced to adjust the financial statements of those entities to IFRS.

3. Functional currency and reporting currency

The functional currency applied by the Parent Company as well as the reporting currency used in the consolidated financial statements is the Polish zloty (PLN).

Standalone and consolidated financial statements of the Group companies are drawn up in the functional currencies of their primary business environments.

The functional currencies of direct subsidiaries of ASEE S.A. include the Romanian leu (RON), Croatian kuna (HRK), Serbian dinar (RDS), Macedonian denar (MKD), euro (EUR), Turkish lira (TRY), Bulgarian lev (BGN), and Bosnia and Herzegovina convertible mark (BAM).

4. Professional judgement and estimates

Preparation of consolidated financial statements in accordance with IFRS requires making estimates and assumptions which have an impact on the data disclosed in such financial statements. Although the adopted assumptions and estimates have been based on the Group management's best knowledge on the current activities and occurrences, the actual results may differ from those anticipated.

Presented below are the main areas which, in the process of applying our accounting policies, were subject not only to accounting estimates but also to the management's professional judgement, and whose estimates, if changed, could significantly affect the Group's future results.

i. Operating cash flows assumed for valuation of IT contracts as well as measurement of their completion

The Group executes a number of contracts for construction and implementation of information technology systems. Valuation of IT contracts requires determination of future operating cash flows in order to provide the fair value of revenues and expenses, as well as measurement of the progress of contract execution. The percentage of contract completion shall be measured as the relation of costs already incurred (provided such costs contribute to the progress of work) to the total costs planned, or as a portion of man-days worked out of the total work effort required. As at 31 December 2016, receivables generated from valuation of IT contracts amounted to PLN 11,722 thousand, while liabilities and provisions arising from such valuation equalled PLN 7,811 thousand.

i. Rates of depreciation and amortization

The level of depreciation and amortization rates is determined on the basis of anticipated period of useful economic life of the components of tangible and intangible assets. The Group verifies the adopted periods of useful life on an annual basis, taking into account the current estimates.

ii. Impairment testing of goodwill

As at 31 December 2016, the Management Board of the Parent Company performed an impairment test on goodwill arising from the acquisition of subsidiaries.

This task required making estimates of the recoverable amount of goodwill allocated to individual operating segments. The recoverable amount is estimated by determination of the future cash flows expected to be achieved from the cash-generating unit and determination of a discount rate to be subsequently used in order to calculate the net present value of those cash flows. As at 31 December 2016, goodwill arising from the acquisition of subsidiaries amounted to PLN 505,634 thousand as compared with PLN 488,566 thousand reported as at 31 December 2015.

iii. Deferred tax assets

As at 31 December 2016, the Group recognized deferred tax assets in the amount of PLN 2,621 thousand and deferred tax liabilities in the amount of PLN 1,328 thousand. In the period of 12 months ended 31 December 2016, the balance of deferred tax assets and liabilities changed by PLN -89 thousand, as compared with the change of PLN 1,015 thousand in the comparable period of 2015.

Based on the current financial budgets of our companies and applicable tax regulations, the Group's management believes that future utilization of deferred tax assets recognized in the Group's consolidated financial statements in the amount of PLN 2,621 thousand is very likely.

5. New standards and interpretations published but not in force yet

The following standards and interpretations were issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC), but have not yet come into force:

- IFRS 9 *Financial Instruments* (issued on 24 July 2014) – effective for annual periods beginning on or after 1 January 2018;
- IFRS 14 *Regulatory Deferral Accounts* (issued on 30 January 2014) – the European Commission has decided not to initiate the process of endorsement of this standard until the release of its final version – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2016;
- IFRS 15 *Revenue from Contracts with Customers* (issued on 28 May 2014), including the amendment of the Effective Date of IFRS 15 (issued on 11 September 2015) – effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (issued on 11 September 2014) - work for the endorsement of these amendments has been postponed by the EU – the effective date of these amendments has been deferred indefinitely by the IASB;
- IFRS 16 *Leases* (issued on 13 January 2016) – not yet endorsed by the EU till the date of approval of

these financial statements – effective for annual periods beginning on or after 1 January 2019;

- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (issued on 12 September 2016) – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2018;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses* (issued on 19 January 2016) – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2017;
- Amendments to IAS 7 *Disclosure Initiative* (issued on 29 January 2016) – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2017;
- Clarifications to IFRS 15 *Revenue from Contracts with Customers* (issued on 12 April 2016) – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions* (issued on 20 June 2016) – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2018;
- Annual Improvements to IFRSs: 2014-2016 Cycle (issued on 8 December 2016) – not yet endorsed by the EU till the date of approval of these financial statements – Amendments to IFRS 12 shall be effective for annual periods beginning on or after 1 January 2017, whereas Amendments to IFRS 1 and IAS 28 shall be effective for annual periods beginning on or after 1 January 2018;
- Interpretation IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (issued on 8 December 2016) – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2018;
- Amendments to IAS 40 *Transfers of Investment Property* (issued on 8 December 2016) – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2018.

The Management Board is currently analyzing the impact of the above-mentioned amendments on the Group's financial statements and financial position.

6. Significant accounting policies

i. Consolidation rules

These consolidated financial statements comprise the financial statements of the Parent Company, Asseco South Eastern Europe S.A., as well as the financial data of its subsidiaries in each case prepared for the period from 1 January 2016 to 31 December 2016. The financial data of subsidiaries have been prepared using consistent accounting policies and based on uniform accounting policies applied to transactions and business events of similar nature.

Subsidiary companies are those entities which are controlled by the Company. The Company, irrespective of the nature of its involvement with a given entity, in each case analyzes whether it is a parent taking into account the influence it exerts on such entity.
The Company maintains control over an investee entity if and only if it has:

- power over the investee;
- exposure, or rights, to variable financial results of the investee; and
- the ability to use power over the investee to affect the amount of returns generated from its investment.

All balances of settlements and transactions between the Group companies, including unrealized profits resulting from transactions within the Group, are fully eliminated during the consolidation. Losses are eliminated to the extent in which they do not indicate impairment.

Subsidiaries are subject to consolidation from the date the Group obtains control over such entities until such control ceases.

Any changes in equity interest / voting rights in a subsidiary that do not result in a loss of control are accounted for as capital transactions. In such events, in order to reflect changes in the ownership of a respective subsidiary, the Group shall adjust the carrying value of controlling interests and non-controlling interests. Any differences between the change in non-controlling interests and the fair value of consideration paid or received are recognized directly in equity and attributed to the owners of the parent company.

The Group's interests in associates and joint ventures are accounted for using the equity method.

Investments in associates and joint ventures are disclosed in the balance sheet at purchase cost increased by further changes in the Group's share in net assets of these entities, and decreased by any impairment charges. The income statement reflects the Group's share in the results of its associates and joint ventures. In the case of any changes recognized directly in the equity of associates or joint ventures, the Group recognizes its share in each such change and, if applicable, discloses it in the statement of changes in equity. Investment in an associated entity or joint venture shall comprise goodwill arising from their acquisition. Should the Group's participation in losses of an associated entity or joint venture equal or exceed the investment value, the Group does not recognize any further losses unless it committed itself to settle the liabilities of or to make payments to such associated entity or joint venture.

From the date on which an entity ceases to be a joint venture and does not become a subsidiary or an associate of the Group, the Group shall account for its interest in such entity at fair value. Any differences between the carrying value of a former joint venture and the fair value of the present investment, as well as any proceeds from disposal shall be recognized in the income statement. In the event the remaining portion of investment is significant, it shall be accounted for as an investment in an associate.

ii. Combination of businesses under common control

A business combination involving business entities under common control is a business combination whereby all of the combining business entities are ultimately controlled by the same party or parties, both before and after the business combination, and that control is not transitory.

This refers in particular to transactions such as a transfer of companies or ventures between individual companies within a capital group, or a merger of a parent company with its subsidiary.

The effects of combinations of businesses under common control are accounted for by the Group by the pooling of interests method.

In the event of a business combination in which an investment in one subsidiary is contributed to another subsidiary or in which two subsidiaries of Asseco South Eastern Europe S.A. are combined, the carrying value of investment in the acquiree subsidiary is only transferred to the value of investment in the acquirer subsidiary. Hence, a takeover of one subsidiary by another subsidiary has no impact on the financial results of the Company or the Group.

iii. Goodwill

Goodwill arising from the acquisition of an entity is initially recognized at purchase cost, which represents the excess of:

- the aggregate of:
  - (i) the value of the consideration transferred;
  - (ii) the amount of any non-controlling interest in the acquired entity; and
  - (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquired entity.
- over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

After initial recognition, goodwill is accounted for at purchase cost less any accumulated impairment charges. Goodwill is tested for impairment on an annual basis, or more frequently if there are indications to do so. Goodwill is not subject to amortization.

As at the acquisition date, the acquired goodwill is allocated to every cash-generating unit which may benefit from synergy effects of the related business combination.

Each cash-generating unit or group of units to which the goodwill is so allocated shall:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment identified in accordance with IFRS 8 Operating Segments.

An impairment write-down is determined by estimating the recoverable amount of a cash-generating unit to which goodwill has been allocated. In the event the recoverable amount of a cash-generating unit is lower than its carrying value, an impairment charge shall be recognized. In the event a cash-generating unit contains goodwill and a part of business of this cash-generating unit is sold, goodwill related to the disposed business shall be included in its carrying value for the purpose of determining a gain or loss on disposal of that business. In such circumstances the value of goodwill sold shall be measured as a proportion of the value of business disposed to the value of the cash-generating unit retained.

iv. Translation of items expressed in foreign currencies

The currency of measurement applied by the Parent Company as well as the reporting currency used in these consolidated financial statements is the Polish zloty (PLN).

Standalone and consolidated financial statements of the Group companies are drawn up in the currency of their primary business environment (in their functional currencies). The functional currencies of direct subsidiaries of ASEE S.A. include the Romanian leu (RON), Croatian kuna (HRK), Serbian dinar (RDS), Macedonian denar (MKD), euro (EUR), Turkish lira (TRY), Bulgarian lev (BGN), and Bosnia and Herzegovina convertible mark (BAM).

Transactions denominated in foreign currencies are first recognized at the functional currency exchange rate of the transaction date. Assets and liabilities expressed in foreign currencies are converted at the functional currency exchange rate prevailing at the end of the reporting period. Foreign currency non-cash items valued at historical cost are converted at the exchange rate as at the initial transaction date. Foreign currency non-cash items valued at fair value are converted using the exchange rate as of the date when such fair value is determined.

As at the end of the reporting period, assets and liabilities denominated in currencies other than Polish zloty are translated to Polish zlotys at the mid exchange rates of such currencies as published by the National Bank of Poland and in effect on the last day of the reporting period. Foreign currency differences resulting from such translation are reported respectively as financial income (expenses) or in equity.

As at the end of the reporting period, assets and liabilities of those foreign subsidiaries have been translated into the presentation currency of Asseco South Eastern Europe Group using the exchange rate effective at the end of the reporting period, and their income statements have been restated at the average exchange rate for the reporting period. Foreign currency differences resulting from such restatement are reported directly under own equity, as a separate component thereof. On the date of disposal of a foreign company, the accumulated deferred exchange rate differences carried under own equity and relating to that foreign company shall be recognized in the income statement.

The following exchange rates were applied for the purpose of balance sheet valuation:

Currency	As at 31 Dec. 2016	As at 31 Dec. 2015
USD	4.1793	3.9011
EUR	4.4240	4.2615
RON	0.9749	0.9421
HRK	0.5853	0.5578
RSD	0.0358	0.0349
BGN	2.2619	2.1789
MKD	0.0717	0.0689
BAM	2.2562	2.1690
TRY	1.1867	1.3330

Average exchange rates for the specified reporting periods were as follows:

Currency	For the year ended 31 Dec. 2016	For the year ended 31 Dec. 2015
USD	3.9680	3.7928
EUR	4.3757	4.1848
RON	0.9739	0.9421
HRK	0.5808	0.5492
RSD	0.0355	0.0346
BGN	2.2372	2.1396
MKD	0.0710	0.0680
BAM	2.2371	2.1400
TRY	1.3109	1.3818

v. Property, plant and equipment

Property, plant and equipment are disclosed at purchase cost/production cost decreased by accumulated depreciation and all impairment write-downs. The initial value of a tangible asset corresponds to its purchase cost increased by expenditures related directly to the purchase and adaptation of such asset to its intended use. Such expenditures may also include the cost of replacing parts of machinery or equipment at the time that cost is incurred if the recognition criteria are met. Any costs incurred after a tangible asset is made available for use, such as maintenance or repair fees, are expensed in the income statement at the time when incurred.

At the time of purchase tangible assets are divided into components of significant value for which separate periods of useful life may be adopted. General overhaul expenses constitute a component of assets as well. Such assets are depreciated using the straight-line method over their expected useful lives which are as follows:

Type	Period of useful life
Buildings and structures	40 years
Leasehold improvements	5 years
Computers and telecommunication equipment	1-5 years
Furniture	2-8 years
Office equipment	5-10 years
Transportation vehicles	4-6 years
Other tangible assets	2-5 years

The residual values, useful lives as well as the methods of depreciation of tangible assets are verified on an annual basis and, if necessary, corrected with effect as of the beginning of the financial year just ended.

Should there be any events or changes indicating that the book value of property, plant and equipment may not be recovered, such assets will be reviewed for their possible impairment. If there are any indications of a possible impairment and the book value exceeds the estimated recoverable amount, the value of such assets or cash-generating units shall be reduced to the recoverable amount. The recoverable amount of property, plant and equipment is the greater of their fair value less costs to sell or their value in use. In order to determine the value in use, estimated future cash flows shall be discounted to the present value by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks related to the asset. In case of an asset which does not generate cash independently, the recoverable amount shall be determined for the cash-generating unit, to which such asset belongs. Impairment write-downs are accounted for as operating expenses in the income statement.

All figures in thousands of PLN, unless stated otherwise

A tangible asset may be derecognized from the balance sheet after it is disposed of or when no economic benefits are expected from its further use. Gain/loss on disposal of a tangible fixed asset shall be assessed by comparing the income from such disposal with the present book value of such asset, and it shall be accounted for as operating income/expense. Any gains or losses resulting from derecognition of an asset from the balance sheet (measured as the difference between net proceeds from disposal of such asset and its carrying value) are recognized in the income statement for the period when such derecognition is made.

Investments in progress relate to tangible assets under construction or during assembly and are recognized at purchase cost or production cost, decreased by any eventual impairment write-downs. Tangible assets under construction are not depreciated until their construction is completed and they are made available for use.

vi. Investment property

Investment property is initially recognized at purchase cost or production cost.

Subsequently to initial recognition, an investment property owned by the Group is accounted for in accordance with the requirements applicable to tangible fixed assets, this is at purchase cost or production cost decreased by accumulated depreciation and accumulated impairment write-downs, except for the investment property that meets the criteria to be qualified as held for sale or is disclosed in the group of assets classified as held for sale.

An investment property shall be removed from the balance sheet after it is disposed of or definitely withdrawn from use, when no future economic benefits are expected from its sale. Any gain or loss resulting from removal of an investment property from the balance sheet shall be disclosed in the income statement for the period in which such derecognition is made.

Such assets are depreciated using the straight-line method over their expected useful lives.

vii. Intangible assets

Purchased separately or as a result of merger of companies

Intangible assets purchased in a separate transaction shall be capitalized at purchase cost. Intangible assets acquired as a result of a company takeover shall be capitalized at fair value as at the takeover date.

The period of useful life of an intangible asset shall be assessed and classified as definite or indefinite. Intangible assets with a definite period of useful life are amortized using the straight-line method over the expected useful life, and amortization charges are expensed adequately in the income statement. The periods of useful life, being the basis for determination of amortization rates, are subject to annual verification and, if needed, they are adjusted starting from the next financial year.

Except for development work, intangible assets generated internally by the Group shall not be capitalized, but expenditures on their production shall be expensed in the income statement for the period in which they were incurred.

Impairment tests shall be performed every year for intangible assets with an indefinite period of useful life and those which are no longer used. The remaining intangible assets shall be tested for impairment if there are indications of a possible impairment in value. Should the carrying value exceed the estimated recoverable amount (the higher of the following two amounts: net sales price or value in use), the value of these assets shall be reduced to the recoverable amount.

Cost of development work

An intangible asset generated as a result of development work (or completion of the development phase of an internal project) should be recognized if, and only if, the Group is able to demonstrate:

- the technical feasibility of completing such intangible asset so that it would be suitable for use or sale;
- the intention of finishing the construction of such intangible asset and the intention to use or sell the item;
- the ability to use or sell such intangible asset;
- how such intangible asset is going to generate probable future economic benefits. First of all the company should demonstrate there is a market for products made with the use of the given intangible asset, or that such intangible asset may itself be sold, or that such intangible asset is useful if it is to be used by the company;
- the availability of relevant technical, financial and other resources required to finish the development work and to make the intangible asset ready for use or sale;
- its ability to reliably measure the expenditure for the development work attributable to such intangible asset.

Costs of development work which do not satisfy the above criteria shall be expensed in the income statement.

Costs of development work which satisfy the above-mentioned criteria are recognized at purchase cost less accumulated amortization and accumulated impairment write-downs. All the expenditures carried forward to future periods are subject to amortization over the estimated period in which the related undertaking generates sales revenues. The costs of development work shall be amortized over the period of economic use of an intangible asset, but not longer than for 5 years.

The costs of development work are reviewed concerning a possible impairment on an annual basis – if the related asset has not been made available for use, or more frequently – if during the reporting period there is an indication of impairment, as a result of which the book value may not be recovered.

All the intangible assets subject to amortization are amortized under the straight-line method. Presented below are the periods of useful life adopted for intangible assets:

Type	Period of useful life
Cost of development work	2–5 years
Computer software	2–5 years
Patents and licenses	2–5 years
Other	3-10 years

Any gains or losses resulting from derecognition of an intangible asset from the balance sheet (measured as the difference between net proceeds from disposal of such asset and its carrying value) are recognized as other income or other expenses in the income statement at the time when such derecognition is made.

viii. Leases

Finance lease agreements, under which substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the Group, are recognized in the balance sheet at the commencement of the lease term, at fair value of the leased tangible asset or at present value of the minimum lease payments, whichever is lower. Lease payments are apportioned between finance charges and reduction of the lease liability, so as to achieve a constant rate of interest on the remaining amount of the liability. Finance charges are charged directly as expenses in the income statement.

Property, plant and equipment used under finance lease agreements are subject to depreciation over the estimated useful life or the lease term, whichever is shorter.

Lease agreements, whereby the Group retains substantially all the risks and rewards incidental to ownership of the leased asset, are considered as operating leases. The initial direct costs incurred during the negotiation of operating lease agreements are added to the carrying value of the leased asset and are subsequently recognized over the lease term, on the same basis as revenues from rental. The conditional leasing fees are recognized as income for the period when they become receivable.

ix. Borrowing costs

The costs of external financing are capitalized as a part of the production cost of tangible assets, investment property, or intangible assets, as the case may be. The costs of external financing include any interest computed using the effective interest rate, financial charges under finance lease agreements, or foreign exchange differences that are incurred as a result of external financing up to the amount of interest expense adjustment.

x. Financial instruments

Financial instruments are divided into the following categories:

- financial assets held to maturity,
- financial instruments carried at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale, and
- financial liabilities.

All the financial assets are initially recognized at purchase cost equal to fair value of the effected payment, including the costs related to the purchase of a financial asset, except for financial instruments carried at fair value through profit or loss.

Financial assets held to maturity are investments with fixed or determinable payments and with fixed maturity that the Group intends and is able to hold until maturity. Financial assets held to maturity are valued at amortized cost using the effective interest rate. Financial assets held to maturity shall be classified as fixed assets if their maturity exceeds 12 months from the end of a reporting period.

Financial instruments acquired in order to generate profits by taking advantage of short-term price fluctuations shall be classified as financial instruments carried at fair value through profit or loss. Financial instruments carried at fair value through profit or loss are measured at their market value as at the end of the reporting period. Changes in the values of such financial instruments are recognized as financial income or expenses. Financial assets carried at fair value through profit or loss shall be classified as current assets if the Management Board intends to sell them within 12 months from the end of a reporting period.

Loans granted and receivables are carried at amortized cost. They are recognized as current assets unless their maturity periods are longer than 12 months from the end of a reporting period. Loans granted and receivables with maturity periods longer than 12 months from the end of a reporting period are recognized as fixed assets.

Any other financial assets constitute financial assets available for sale. Financial assets available for sale are carried at fair value, without deducting the transaction-related costs, taking into consideration their market value as at the end of the reporting period. If financial instruments are not quoted on an active market and it is impossible to determine their fair value reliably with alternative methods, such financial assets available for sale shall be measured at purchase cost adjusted by impairment charges. Any positive or negative differences between the fair value of financial assets available for sale (on condition the price of such assets is determined in a regulated active market or their fair value can be measured in another reliable way) and their purchase cost, shall be recognized net of deferred tax in other comprehensive income. A decrease in the value of assets available for sale, resulting from their impairment, shall be disclosed as a financial expense in the income statement.

Purchases or disposals of financial assets are recognized in the accounting books at the transaction date. At the initial recognition they are valued at purchase cost, this is at fair value plus the transaction-related costs.

Financial liabilities other than financial instruments carried at fair value through profit or loss, are measured at amortized cost using the effective interest rate.

A financial instrument shall be derecognized from the balance sheet if the Group no longer controls the contractual rights arising from such financial instrument; this usually takes place when the instrument is sold or when all cash flows generated by that instrument are transferred to an independent third party.

xi. Derivative financial instruments and hedges

Derivative instruments utilized by the Group in order to hedge against the risk of changes in foreign currency exchange rates include primarily currency forward contracts. Such financial derivatives are measured at fair value. Derivative instruments are recognized as assets or liabilities depending on whether their value is positive or negative.

Gains and losses on changes in fair value of derivatives, which do not qualify for hedge accounting, are recognized directly in profit or loss for the financial year.

Fair value of currency forward contracts is determined on the basis of the forward exchange rates available currently for contracts with similar maturity.

xii. Impairment of financial assets

At the end of each reporting period, the Group determines if there are any objective indications of impairment of a financial asset or group of financial assets.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on loans granted or receivables carried at amortized cost has been incurred, the amount of an allowance is measured as the difference between the asset's book value and the present value of estimated future cash flows (excluding future bad debt losses that have not been incurred yet) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying value of such assets shall be reduced either directly or by recognizing an impairment write-down. The amount of the loss shall be recognized in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are assessed for impairment individually, and for which an impairment loss is or continues to be recognized, are not included in the collective assessment of impairment of a group of assets.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. Such reversal of the impairment write-down shall be recognized in profit or loss to the extent that the carrying value of the financial asset does not exceed its amortized cost at the date when the impairment is reversed.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative instrument that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of impairment loss is measured as the difference between the carrying value of the financial asset involved and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets.

Financial assets available for sale

When there is objective evidence that a financial asset available for sale is impaired, then the amount of difference between the purchase cost of such asset (net of any principal repayments and amortization) and its current value decreased by any impairment charges on that financial asset as previously recognized in profit or loss, shall be removed from equity and recognized in the income statement. Reversals of impairment losses on equity instruments classified as available for sale cannot be recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, then the amount of such impairment loss shall be reversed in the income statement.

xiii. Inventories

Inventories are measured at the lower of the following two values: purchase cost/production cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Group measures the value of consumed inventories at the price (cost) of earlier purchased (generated) assets, following the first-in first-out principle.

The Group companies are obliged to perform an ageing analysis of their inventories at the end of each reporting period, separately for the main groups (goods for resale, maintenance service inventories). Such analysis provides the rationale for making write-downs on inventories subject to the following rules:

- 100% write-down on goods stored for longer than 2 years,
- 75% write-down on goods stored for between 1.5 and 2 years,
- 50% write-down on goods stored for between 1 and 1.5 years,
- 25% write-down on goods stored for between half a year and 1 year.

The initial value of service parts is expensed on a straight-line basis over the duration of the maintenance service contract, for which such parts have been purchased.

Every year the Group verifies whether the adopted principles for recognition of write-downs correspond to the actual impairment of its inventories.

Write-downs on inventories shall be recognized as operating expenses.

xiv. Prepayments and accrued income

Prepayments comprise expenses incurred before the end of the reporting period that relate to future periods.

Prepayments may in particular include the following items:

- prepaid third-party services (inclusive of prepaid maintenance services) which shall be provided in future periods,
- rents paid in advance,
- insurances,
- any other expenses incurred in the current period, but related to future periods.

Accrued income includes mainly maintenance services relating to future periods. The Group recognizes prepayments and accrued income if their amounts relate to future reporting periods.

xv. Trade receivables

Trade receivables are recognized and disclosed at the amounts initially invoiced, less any allowances for doubtful receivables. Receivables with remote payment terms are recognized at the present value of expected payments.

Allowances for doubtful receivables are estimated when it is no longer probable that the entire amount of original receivables will be collected. The amount of allowances represents the difference between the nominal amount of receivables and their recoverable amount, which corresponds to the net present value of expected cash flows discounted using the interest rate applicable to similar debtors. Doubtful receivables are expensed as operating costs at the time when they are deemed uncollectible.

Receivables are revaluated taking into account the probabilities of their collection, by making allowances for:

- receivables from debtors who went into liquidation or bankruptcy – up to the amount receivable not covered by any guarantee or other collateral, reported to the liquidator or magistrate in bankruptcy proceedings;
- receivables from debtors in case the declaration of bankruptcy is dismissed and the debtor’s assets are insufficient to satisfy the costs of bankruptcy proceedings – in full amount receivable;
- receivables disputed by debtors and past-due where, following an assessment of the debtor’s property and financial condition, collection of full contractual amounts is unlikely – up to the amount receivable not covered by any guarantee or other collateral;

- receivables that constitute an increase of other receivables subject to prior allowances – in full amount receivable until they are received or written-off as uncollectible;
- past-due (or not yet due) receivables, where it is highly probable they will become uncollectible because of the type of business or structure of customers – in the amount of reliably measured or full allowance for doubtful receivables.

Furthermore, the minimum levels of allowances for receivables as recognized by the Group are:

- 100% in relation to receivables in litigation, unless the Management Board believes that obtaining a favourable judgment by the Group is almost certain;
- 100% in relation to receivables past-due over 12 months (from the payment deadline), taking into account any partial payments or arrangements made after the end of the reporting period;
- 50% in relation to receivables past-due between 6 and 12 months (from the payment deadline), taking into account any partial payments or arrangements made after the end of the reporting period.

When deciding on any allowances, the Group takes into consideration not only events that took place before the end of the reporting period, but also later events that took place prior to the preparation of financial statements if such events are related to receivables carried in the books as at the end of the reporting period. Every year the Group verifies whether the adopted principles for recognition of allowances correspond to the actual impairment of its receivables.

Allowances for trade receivables are recognized as operating expenses. Allowances for other receivables are recognized as other operating expenses. Allowances for accrued interest receivable are recognized as financial expenses.

If the cause for recognition of an allowance is no longer valid, such allowance shall be reversed, in the whole amount or in appropriate portion, being recognized as an increase in the value of a relevant asset or as an adjustment to respective cost items.

xvi. Cash and cash equivalents

Cash and cash equivalents presented in the balance sheet consist of cash kept in banks and on hand by the Company, short-term bank deposits with maturities not exceeding 3 months, and other highly liquid instruments.

The balance of cash and cash equivalents disclosed in the consolidated statement of cash flows consists of the above-defined cash and cash equivalents. For the purposes of the statement of cash flows, the Group decided not to include bank overdraft facilities (used as an element of financing) nor restricted cash in the balance of cash and cash equivalents.

xvii. Interest-bearing bank loans and borrowings

All bank loans and borrowings are initially recognized at purchase cost, being the fair value of cash received net of any costs associated with obtaining the loan.

Subsequently to initial recognition, bank loans and borrowings are measured at amortized purchase cost using the effective interest rate method. Determination of the amortized purchase cost shall take into account any costs associated with obtaining a loan.

The difference between the amount of cash received (net of any costs related to obtaining a bank loan or borrowing) and the amount to be repaid shall be disclosed in the income statement over the term of such financing. Any gains or losses shall be recognized in the income statement after the liability has been removed from the balance sheet. All expenses relating to bank loans and borrowings are recognized in the income statement for the period they relate to.

xviii. Trade payables

Trade payables relating to operating activities are recognized and disclosed at the amounts due for payment, and are recognized in the reporting periods which they relate to.

xix. Provisions

A provision should be recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects that the expenditure required to settle a provision is to be reimbursed, e.g. under an insurance contract, this reimbursement should be recognized as a separate asset when, and only when, it is virtually certain that such reimbursement will be received. The expense relating to such provision shall be disclosed in the income statement, net of the amount of any reimbursements.

The Group recognizes provisions for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Where the effect of the time value of money is material, the amount of a provision shall be determined by discounting the expected future cash flows to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks related to the liability. Where discounting method is used, the increase in a provision due to the passage of time is recognized as borrowing costs.

Provision for warranty repairs

The provision for warranty repairs is created to cover anticipated future costs of warranty or service obligations resulting from the executed IT contracts. The costs of fulfilment of our warranty obligations comprise mainly labour costs (number of man-days multiplied by the standard rate) as well as the cost of goods, materials and third-party services used in performing such warranty obligations.

This provision is set aside in the cases where:
- the client has not signed any contract for maintenance services;
- the scope of the maintenance services contract does not fully cover all anticipated costs of the fulfilment of warranty obligations;
- the scope of the manufacturer's warranty for any equipment resold is narrower than the scope of warranty the Group is contractually committed to provide to its client.

The provision amount recognized at the end of the reporting period shall be proportional to the progress of the IT contract execution.

Any costs associated with the provision of our warranty services shall be, when incurred, deducted from the created provision (utilization of the provision). At the end of each reporting period, the Group verifies the amount of carried provision for warranty repairs. If the actual costs of warranty services or anticipated future costs are lower/higher than assumed at the time of initial recognition of a provision, such provision shall be decreased/increased accordingly to reflect the Group's current expectations in respect of fulfilment of its warranty obligations in future periods.

Retirement benefits, other post-employment benefits and accrual for unused holiday leaves

The Group creates a provision for the present value of liabilities relating to future payments of retirement benefits. Furthermore, the Group recognizes an accrual for unused holiday leaves, which relate to periods prior to the reporting period and which will be used in the future. Here the amount of related payment depends on the average monthly remuneration and the number of due but untaken leave days as at the end of the reporting period. Costs of both termination benefits and untaken leaves are based on estimates and recognized in accordance with the accrual accounting. Accrual for unused holiday leaves is presented under accruals.

xx. Revenues

Sales revenues

Sales revenues are recognized if the amount of revenue can be reliably measured and if it is highly probable that economic benefits associated with the transaction will flow to the Group.

Should it be impossible to reliably estimate the amount of revenue from a service transaction, such revenue shall only be recognized in the amount of costs incurred which the Group expects to recover. The Group identifies the following types of revenues:
- Revenues from the sale of proprietary licenses and services,
- Revenues from the sale of third-party licenses and services, and
- Revenues from the sale of hardware.

The category of "Proprietary licenses and services" includes revenues from contracts with customers under which we supply our own software and provide related services. Such services may be performed by the Company's employees (internal resources) as well as by subcontractors (external resources). In addition, this category includes revenues from the provision of own services for third-party software and infrastructure.

The category of "Third-party licenses and services" includes revenues from the sale of third-party licenses as well as from the provision of services which, due to technological or legal reasons, mast be carried out by subcontractors (this applies to hardware and software maintenance and outsourcing services provided by their manufacturers).

Revenues from the sale of own software licenses and/or services, which are supplied/rendered under an implementation contract, shall be recognized proportionally to the completion of the entire contract.

In the case of other own software licenses and/or services, revenues are recognized in the period in which the Group expects to be required to provide such services to the client. Revenues from the sale of third-party software licenses and/or services may be recognized as sales of goods or as sales of services, depending on the nature of the contract with the client.

In the case of third-party software licenses and/or services for which the significant risks and rewards of ownership are transferred to the buyer at the time of the sale, revenues are recognized as sales of goods, this is in a lump sum at the time of the sale, regardless of whether a third-party license and/or service is provided for a specified or unspecified period of time. The Group considers that significant risks are transferred to the buyer when, after the delivery of a license/service, the Group is not obligated to provide any additional benefits to the client.

In other cases, i.e. when after the delivery of a license/service, the Group is obligated to provide additional benefits to the client, revenues are recognized as sales of services, this is over a period in which such services are performed and proportionally to the completion of the entire transaction.

Revenues from the sale of hardware are recognized as sales of goods, provided that the significant risks and rewards resulting from a contract have been transferred to the buyer and the amount of revenue can be measured reliably.

Revenues and costs related to the execution of implementation contracts

Revenues from implementation contracts shall include highly probable revenues resulting from the concluded contracts and/or orders, which can be measured reliably. Therefore, the pool of such revenues does not include any proceeds that are considered as doubtful despite being determined in a signed contract (e.g. the Group anticipates that a client may decide to resign from a portion of contracted work).

Contract revenues include the following:

a. revenues resulting from issued invoices,
b. future revenues resulting from signed agreements and/or orders placed on the basis of framework agreements.

Contract costs include the following:

a. costs of goods, materials and third-party services sold (COGS), and
b. costs of internal resources being involved in the contract execution.

The costs of internal resources employed in the contract execution are calculated on the basis of actual workload (for ended periods) or estimated workload (for forecast periods), and appropriate standard (cost) rate covering the production costs.

The standard rate corresponds to the cost of man-hour (or man-day) of our own production resources calculated on the basis of production costs budgeted for a given year.

Valuation of implementation contracts

The purpose for valuation of an IT implementation contract is to determine the amount of revenues to be recognized in a given period. The Group performs such valuation using the percentage of completion method.

Should the percentage progress of incurred costs, decreased by expected losses and increased by profits included in the income statement, exceed the percentage progress of invoiced sales, the amount of uninvoiced sales resulting from such difference shall be disclosed in the statement of financial position, under "Receivables arising from valuation of IT contracts". Conversely, if the percentage progress of invoiced sales exceeds the percentage progress of costs incurred, decreased by expected losses and increased by profits included in the income statement, then future-related (unearned) revenues resulting from such difference shall be disclosed under "Liabilities arising from valuation of IT contracts".

Loss generating contracts

Loss generating contract is a contract, under which total revenues are lower than total costs.

In the event it is highly probable that the total contract execution costs exceed the total contract revenues, the anticipated loss shall be recognized as cost in the reporting period in which it has been detected, by creating a provision for contractual losses. The amount of such provision and/or its legitimacy are subject to verification at each subsequent reporting date, until the completion of the contract.

The amount of created provisions for losses shall increase the balance of liabilities and be disclosed under "Liabilities arising from valuation of IT contracts".

Methods for measuring the percentage of contract completion

In order to measure the progress of contract completion, the Company applies a variety of methods allowing to reliably determine the percentage of work that has already been executed under the contract. Depending on the contract nature, these methods may include:

a. determination of the proportion of costs incurred for work performed up to the end of the reporting period to the estimated total contract costs;
b. measurement of work performed; or
c. comparison of work performed as a physical proportion of total work under the contract.

The percentage of completion method is applied on a cumulative basis in each accounting period to the current estimates of contract revenues and contract costs. The effects of changes in estimates of contract revenues or contract costs are recognized in the period in which such changes occur.

Combining and segmenting of implementation contracts

Valuation is usually performed on single contracts or contracts with annexes thereto, if such annexes modify the main contract by extending or limiting the subject thereof. In the event an annex represents an additional order, going beyond the subject of the main contract, and the price of such order is determined without reference to the main contract price, such annex shall be valued separately.

When a contract covers a number of elements, the implementation of each element should be treated as a separate contract, only if the following conditions are jointly met:

a. separate offers have been submitted for each of the identified elements;
b. each element has been subject to separate negotiations; and
c. the costs and revenues of each element can be identified – revenues must be specified in the contract and/or order.

Whereas, a group of contracts may be treated as a single contract, if the following conditions are jointly met:

a. the group of contracts is negotiated as a single package;
b. the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
c. the contracts are performed concurrently or in a continuous sequence.

Interest

Interest income shall be recognized on a time proportion basis (taking into account the effective yield, this is the interest rate which accurately discounts future cash flows during the estimated useful life of a financial instrument) on the net book value of a financial asset.

Interest income may comprise interest on loans granted, investments in securities held to maturity, bank deposits and other items.

Dividends

Dividends shall be recognized when the shareholders' right to receive payment is vested.

xxi. Taxes

Current income tax

Liabilities and receivables resulting from current income tax, for the current and prior periods, are measured at the amounts of expected payments to the taxation authorities (or repayments from the taxation authorities), applying the tax rates and tax regulations legally or factually in force at the end of the reporting period.

Deferred income tax

For the purpose of financial reporting, deferred income tax is calculated applying the balance sheet liability method to all temporary differences that exist, at the end of the reporting period, between the tax base of an asset or liability and its carrying value disclosed in the financial statements. Deferred tax liabilities are recognized in relation to all positive temporary differences – except for situations when a deferred tax liability arises from initial recognition of goodwill or initial recognition of an asset or liability on a transaction other than combination of businesses, which at the time of its conclusion has no influence on pre-tax profit, taxable income or tax loss, as well as in relation to positive temporary differences arising from investments in subsidiaries or associates or from interests in joint ventures – except for situations when the investor is able to control the timing of reversal of such temporary differences and when it is probable that such temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognized in relation to all negative temporary differences, as well as unutilized tax losses carried forward to subsequent years, in such amount that it is probable that future taxable income will be sufficient to allow the above-mentioned temporary differences, assets or losses to be utilized – except for situations when deferred tax assets arise from initial recognition of an asset or liability on a transaction other than combination of businesses, which at the time of its conclusion has no influence on pre-tax profit, taxable income or tax loss; as well as in relation to negative temporary differences arising from investments in subsidiaries or associates or from interests in joint ventures, in which cases deferred tax assets are recognized in the balance sheet in such amount only that it is probable that the above-mentioned temporary differences will be reversed in the foreseeable future and that sufficient taxable income will be available to offset such negative temporary differences.

The carrying value of an individual deferred tax asset shall be verified at the end of each reporting period and shall be adequately decreased or increased in order to reflect any changes in the estimates of achieving taxable profit sufficient to utilize such deferred tax asset partially or entirely.

Deferred tax assets and deferred tax liabilities shall be valued using the future tax rates anticipated to be applicable at the time when a deferred tax asset is realized or a deferred tax liability is reversed, based on the tax rates (and tax regulations) legally or factually in force at the end of the reporting period.

Value added tax

Revenues, expenses and assets shall be disclosed in the amounts excluding value added tax unless:

- value added tax paid at the purchase of goods or services is not recoverable from the taxation authorities; in such event the value added tax paid shall be recognized as a part of the purchase cost of an asset or as an expense, and
- receivables and liabilities are presented including value added tax.

Net amount of value added tax which is recoverable from or payable to the taxation authorities shall be included in the balance sheet as a part of receivables or liabilities.

Assessment of uncertainty over tax treatments

If the Group believes it is probable that its tax treatment or a group of tax treatments will be accepted by the taxation authority, then the Group shall determine the taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates consistently with the tax treatment used or planned to be used in its income tax filings.

If the Group concludes it is not probable that its tax treatment or a group of tax treatments will be accepted by the taxation authority, then the Group shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax base, unused tax losses, unused tax credits or tax rates. Such effect is reflected by the Group using the following method:

The Group determines the most likely scenario – the single most likely amount in a range of possible outcomes.

7. Seasonal nature of business

The Group's business operations are subject to seasonality, which involves revenue fluctuations in individual quarters of the year. Because the bulk of sales revenues are generated from IT services contracts executed for large companies and public institutions, turnovers recorded in the fourth quarter tend to be higher than in the remaining periods. Such phenomenon occurs for the reason that the above-mentioned entities close their annual budgets for implementation of IT projects and carry out investment purchases of hardware and licenses usually in the last quarter.

8. Changes in the accounting policies applied

In the reporting period, the Group has not introduced any changes to the applied accounting policies, except for adopting the amendments to standards and new interpretations effective for annual periods beginning on or after 1 January 2016.

The accounting policies adopted in the preparation of this report are consistent with those followed when preparing the consolidated financial statements for the year ended 31 December 2015, except for the adoption of amendments to standards and new interpretations effective for annual periods beginning on or after 1 January 2016:

- Annual Improvements to IFRSs: 2010-2012 Cycle, including Amendments to IFRS 2 *Share-based Payment, Amendments* to IFRS 3 *Business Combinations*, Amendments to IFRS 8 *Operating Segments*, Amendments to IAS 16 *Property, Plant and Equipment*, Amendments to IAS 38 *Intangible Assets*, Amendments to IFRS 13 *Fair Value Measurement*, Amendments to IAS 24 *Related Party Disclosures*, Amendments to IFRS 7 *Financial Instruments: Disclosures*, as well as Amendments to IAS 19 *Employee Benefits*;
- Annual Improvements to IFRSs: 2012-2014 Cycle, including Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, as well as Amendments to IAS 34 *Interim Financial Reporting*;
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*;
- Amendments to IAS 1 *Disclosure Initiative*;
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*;
- Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*;
- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*;
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*; and
- Annual Improvements to IFRSs: 2012-2014 Cycle, including Amendments to IFRS 7 *Financial Instruments: Disclosures, as well as Amendments* to IAS 19 *Employee Benefits*.

Adoption of these amendments had no impact on the Group's financial position or the results of its operations.

The Group did not decide on early adoption of any other standard, interpretation or amendment which has been published but has not yet become effective in accordance with the EU regulations.

9. Changes in comparable data

As at 31 December 2015, we made an adjustment to the amount of goodwill and prior years' retained earnings arising from the acquisition of Pexim d.o.o. (presently ASEE Serbia) in 2007. Foreign exchange differences related to the payment of a dividend to the company's shareholders that occurred after the date of obtaining control were initially recognized in goodwill. Following the adjustment, such foreign exchange differences have been recognized in prior years' retained earnings. The table below discloses the restatement introduced to the comparable data:

	Year ended 31 Dec. 2015 (restated)	Year ended 31 Dec. 2015 (audited)	Change
Goodwill	488,566	489,600	(1,034)
Exchange differences on translation of foreign operations	(78,739)	(79,074)	335
Retained earnings and current net profit	209,247	210,616	(1,369)

V. INFORMATION ON OPERATING SEGMENTS

Asseco South Eastern Europe Group has identified the following reportable segments reflecting the structure of its business operations:

a) Banking Solutions,
b) Payment Solutions,
c) Systems Integration.

Banking Solutions

Asseco SEE's offer within the Banking Solutions segment ranges from the Digital Edge omni-channel solution designed to distribute banking products and services over new, alternative distribution channels and to improve business relations and communication with the customer, through integrated core banking systems based on the Oracle and Microsoft platforms, to authentication security solutions, reporting systems for regulatory compliance and managerial information, as well as risk management and anti-fraud systems. We also offer our clients on-line 24x7 services and consultancy in the area of electronic banking and digital transformation.

Payment Solutions

Asseco SEE provides complete payment industry solutions, for non-financial and financial institutions, supporting card and card-less transactions. Our product portfolio includes solutions for e-commerce (NestPay®, MSU), mobile payments (mPOS, HCE), payment card processing, as well as ATM and POS related services. We deliver software, services including outsourcing and equipment, providing the highest level of expertise, maintenance and support through the entire portfolio.

Systems Integration

Asseco South Eastern Europe Group is a top player on the market of integration services in Kosovo, Macedonia, Romania and Serbia. The Group serves the financial, industry and public administration sectors with the following business lines: development of IT infrastructure, implementations and support, ensuring continuity of business processes, automation of operations, and customized software development. The Systems Integration segment also presents a group of proprietary solutions of ASEE which, due to their profile, have not been classified to our banking or payment solutions. Among such solutions are BPS content management solution, LIVE contact center solutions, Fidelity asset lifecycle management solution, and SKAI billing system for utilities. Furthermore, the product portfolio of the Systems Integration segment includes LeaseFlex, a fully-fledged lease and asset lifecycle management solution.

All figures in thousands of PLN, unless stated otherwise

For the year ended 31 December 2016 and as at 31 December 2016 in thousands of PLN (audited)	Banking Solutions (I)	Payment Solutions (II)	*Total Banking Business (I-II)*	Systems Integration (III)	Unallocated	Eliminations / Reconcilia-tions	Total
Sales revenues:	**163,382**	**205,319**	***368,701***	**228,319**	**8,324**	**(34,710)**	**570,634**
Sales to external customers	146,277	199,392	***345,669***	224,965	-	-	**570,634**
Inter/intra segment sales	17,105	5,927	***23,032***	3,354	8,324	(34,710)	**-**
Gross profit on sales	**47,838**	**54,642**	***102,480***	**33,869**	**-**	**-**	**136,349**
Selling costs (-)	(10,050)	(11,587)	***(21,637)***	(16,484)	-	-	**(38,121)**
General and administrative expenses (-)	(16,193)	(15,053)	***(31,246)***	(11,092)	-	-	**(42,338)**
Net profit on sales	**21,595**	**28,002**	***49,597***	**6,293**	**-**	**-**	**55,890**
Goodwill	*205,749*	*111,842*	***317,591***	*188,043*	-	-	***505,634***

For the year ended 31 December 2016 in thousands of EUR	Banking Solutions (I)	Payment Solutions (II)	*Total Banking Business (I-II)*	Systems Integration (III)	Unallocated	Eliminations / Reconcilia-tions	Total
Sales revenues:	**37,338**	**46,923**	***84,261***	**52,180**	**1,902**	**(7,932)**	**130,411**
Sales to external customers	33,430	45,568	*78,998*	51,413	-	-	**130,411**
Inter/intra segment sales	3,908	1,355	*5,263*	767	1,902	(7,932)	**-**
Gross profit on sales	**10,933**	**12,488**	***23,421***	**7,740**	**-**	**-**	**31,161**
Selling costs (-)	(2,297)	(2,648)	*(4,945)*	(3,767)	-	-	**(8,712)**
General and administrative expenses (-)	(3,701)	(3,440)	*(7,141)*	(2,535)	-	-	**(9,676)**
Net profit on sales	**4,935**	**6,400**	**11,335**	**1,438**	**-**	**-**	**12,773**

The above figures have been converted at the average exchange rate for the period from 1 January 2016 to 31 December 2016: EUR 1 = PLN 4.3757

For the year ended 31 December 2015 and as at 31 December 2015 in thousands of PLN (restated)	Banking Solutions (I)	Payment Solutions (II)	*Total Banking Business (I-II)*	Systems Integration (III)	Unallocated	Eliminations / Reconcilia-tions	Total
Sales revenues:	**155,843**	**164,888**	***320,731***	**195,203**	**9,220**	**(37,949)**	**487,205**
Sales to external customers	134,384	160,130	***294,514***	192,691	**-**	**-**	**487,205**
Inter/intra segment sales	21,459	4,758	***26,217***	2,512	9,220	(37,949)	**-**
Gross profit on sales	**42,298**	**48,566**	***90,864***	**34,560**	**-**	**-**	**125,424**
Selling costs (-)	(11,654)	(9,564)	***(21,218)***	(16,195)	-	-	**(37,413)**
General and administrative expenses (-)	(13,189)	(12,107)	***(25,296)***	(10,703)	-	-	**(35,999)**
Net profit on sales	**17,455**	**26,895**	***44,350***	**7,662**	**-**	**-**	**52,012**
Goodwill	*193,556*	*110,292*	***303,848***	*184,718*	-	-	***488,566***

For the year ended 31 December 2015 in thousands of EUR	Banking Solutions (I)	Payment Solutions (II)	*Total Banking Business (I-II)*	Systems Integration (III)	Unallocated	Eliminations / Reconcilia-tions	Total
Sales revenues:	**37,240**	**39,402**	***76,642***	**46,646**	**2,203**	**(9,068)**	**116,423**
Sales to external customers	32,112	38,265	***70,377***	46,046	-	-	**116,423**
Inter/intra segment sales	5,128	1,137	***6,265***	600	2,203	(9,068)	**-**
Gross profit on sales	**10,108**	**11,605**	**21,713**	**8,259**	**-**	**-**	**29,972**
Selling costs (-)	(2,785)	(2,285)	***(5,070)***	(3,870)	-	-	**(8,940)**
General and administrative expenses (-)	(3,152)	(2,893)	***(6,045)***	(2,558)	-	-	**(8,603)**
Net profit on sales	**4,171**	**6,427**	***10,598***	**1,831**	**-**	**-**	**12,429**

The above figures have been converted at the average exchange rate for the period from 1 January 2015 to 31 December 2015: EUR 1 = PLN 4.1848

VI. EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Breakdown of sales revenues

During the year ended 31 December 2016 and in the comparable period, operating revenues were as follows:

Sales revenues by type of products	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Proprietary software and services	347,481	297,218
Third-party software and services	76,735	72,781
Hardware and infrastructure	146,418	117,206
	570,634	**487,205**

In 2016, sales revenues generated by ASEE Group were higher by PLN 83.4 million or 17% than in the previous year. We recorded a similar revenue growth in Proprietary software and services, which accounted for 61% of the Group's total sales over the last two years, as well as in Third-party software and services and Hardware and infrastructure, whose combined share in our revenue structure remained stable at the level of 39%.

2. Breakdown of operating costs

	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Employee benefits (-)	(182,833)	(163,498)
Third-party non-project services and outsourcing of employees (-)	(24,273)	(19,057)
Depreciation and amortization (-)	(37,250)	(30,299)
Maintenance costs of property and business cars (-)	(32,248)	(28,953)
Business trips (-)	(3,955)	(4,350)
Advertising (-)	(3,844)	(4,059)
Other operating expenses (-)	(5,386)	(6,050)
	(289,789)	**(256,266)**
Cost of sales, of which:	**(434,285)**	**(361,781)**
Cost of goods and third-party services sold (-)	(224,955)	(178,927)
Production costs (-)	(209,330)	(182,854)
Selling costs (-)	(38,121)	(37,413)
General and administrative expenses (-)	(42,338)	(35,999)

Third-party non-project services include consulting services which are not related to specific projects, as well as auditing, legal, banking, postal, courier services, and stock exchange fees.

Maintenance costs of property and business cars include the costs of equipment repairs and spare parts used for the executed projects, costs of repairs and maintenance of tangible assets (including infrastructure provided under our outsourcing contracts), maintenance costs of intangible assets, office space rental and maintenance fees, as well as maintenance of company cars.

3. Other operating income and expenses

Other operating income	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Gain on disposal of property, plant and equipment and intangible assets	743	567
Reimbursement of tax paid on civil law transactions	-	915
Income from leases of space	87	189
Other	939	874
	1,769	**2,545**

In 2016, the line of "Other" includes primarily income from recharge invoices unrelated to the core business of our companies, amounts returned upon the settlement of social benefits for previous years, as well as discounts and rebates related to prior years that were received by our companies.

In 2015, the line of "Other" includes mainly income from the recovery of withholding tax paid by ASEE Turkey on license purchases in previous years, as well as discounts related to prior years that were received by our companies.

In 2015, following a decision issued by the Taxation Chamber, ASEE S.A. received a reimbursement of the excessive amount of civil law transactions tax paid by the Company in the years 2008 – 2010 in connection with increasing its share capital. The recovered tax amounted in total to PLN 1,417 thousand, of which the principal amount of PLN 915 thousand has been recognized in other operating income, whereas the accrued interest amounting to PLN 502 thousand in financial income.

Other operating expenses	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Loss on disposal of property, plant and equipment (-)	(187)	(649)
Expenses related to reimbursement of tax paid on civil law transactions (-)	-	(320)
Charitable contributions to unrelated parties (-)	(164)	(305)
Liquidation costs of property, plant and equipment, intangible assets, and inventories (-)	(256)	(100)
Cost of recharge invoices (-)	(112)	(88)
Creation of provisions	-	(134)
Other (-)	(528)	(320)
	(1,247)	**(1,916)**

All figures in thousands of PLN, unless stated otherwise

4. Financial income and expenses

Financial income	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Interest income on loans granted and bank deposits	1,615	1,485
Interest related to reimbursement of tax paid on civil law transactions	-	502
Gain on valuation of derivative instruments	792	274
Valuation of shares due to obtaining control	4,120	-
Positive foreign exchange differences	1,704	1,720
Other financial income	53	161
	8,284	**4,142**

Financial income includes the valuation of shares in the amount of PLN 4,120 thousand relating to the fair value measurement of our 50% shareholding in E-Mon, Montenegro held at the date of obtaining control. The fair value has been determined on the basis of a valuation prepared by an independent expert. Such valuation is related to a step acquisition and has been recognized in accordance with IFRS 3 which requires the equity interest previously held by the acquirer in the acquired entity to be remeasured at fair value at the date of acquisition, and subsequently the resulting profit or loss, if any, to be recognized in the income statement.

Financial expenses	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Interest expense (-)	(1,126)	(1,303)
Bank fees and commissions (-)	(98)	(196)
Negative foreign exchange differences (-)	(836)	(1,359)
Company acquisition related expenses (-)	(160)	(24)
Interest expenses under finance leases (-)	(122)	(90)
Loss on valuation of derivative instruments (-)	(1,748)	(584)
Other financial expenses (-)	(7)	(19)
	(4,097)	**(3,575)**

The loss on valuation of derivative instruments amounting to PLN 1,748 thousand in 2016 (and PLN 584 thousand in 2015) resulted from the valuation of currency forward contracts held by ASEE S.A. which are disclosed under financial liabilities.

5. Corporate income tax

The main charges on pre-tax profit resulting from corporate income tax (current and deferred portions):

	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Current portion of income tax and prior years' adjustments	(9,330)	(11,177)
Deferred portion of income tax	(89)	1,015
Income tax expense as disclosed in the income statement, of which:	**(9,419)**	**(10,162)**
Income tax attributable to continuing operations	*(9,419)*	*(10,162)*

	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)	Change
Pre-tax profit	**60,967**	**53,664**	**7,303**
Current portion of income tax			
- withholding tax on dividends	(46)	(2,232)	2,186
- current income taxes of companies	(9,284)	(8,945)	(339)
	(9,330)	**(11,177)**	**1,847**
Deferred portion of income tax			
- change in deferred tax assets arising from tax losses	(88)	(693)	605
- other temporary differences	(1)	1,708	(1,709)
	(89)	**1,015**	**(1,104)**
Effective tax rate	***15.45%***	***18.94%***	***-3.49%***

In 2016, the Group's effective tax rate equalled 15.45% as compared with 18.94% in 2015. The effective tax rate for 2016 decreased in comparison with that for 2015 chiefly as a consequence of lower withholding tax on dividends paid out by our subsidiaries.

Withholding tax on dividends represents income taxes withheld against dividends received by ASEE S.A. amounting to PLN 46 thousand (vs. PLN 2,232 thousand in 2015, of which: PLN 2,182 thousand on dividends received by ASEE S.A. and PLN 50 thousand on dividends received by ASEE Serbia). Withholding tax on dividends decreased as a result of the smaller amount of dividends paid out by our subsidiaries in 2016 (PLN 5 million) than in 2015 (PLN 53 million). In 2015, our subsidiaries made dividend distributions also from retained earnings. The Company's dividend strategy for the foreseeable future does not assume making any dividend payments that might have a material impact on its fiscal position.

The current income tax expense for 2016 remained at a similar level as in 2015. Whereas, the impact of deferred income tax on the profit of 2015 was related basically to creating a provision for deferred tax liabilities of ASEE Macedonia, originating at the moment of dividend payment and not at the moment of income recognition. The said provision was utilized once ASEE Macedonia paid out a dividend to ASEE S.A. in 2015.

In addition, the amount of deferred income tax in 2015 was affected by the utilization of assets arising from tax losses in the Parent Company. Such deferred tax assets were fully utilized in 2015. As a result of the expiration of tax losses, there is no basis for further recognition of deferred tax assets.

As at 31 December 2016, the Group recognized deferred tax assets in the amount of PLN 2,621 thousand (vs. PLN 1,864 thousand as at 31 December 2015) and deferred tax liabilities in the amount of PLN 1,328 thousand (vs. PLN 684 thousand as at 31 December 2015).

All figures in thousands of PLN, unless stated otherwise 28

Reconciliation of corporate income tax payable on pre-tax profit according to the statutory tax rates with the corporate income tax computed at the Group's effective tax rate.

	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Pre-tax profit	**60,967**	**53,664**
Statutory corporate income tax rate	19%	19%
Corporate income tax computed at the statutory tax rate	**(11,584)**	**(10,196)**
[A] Non-taxable income recognized in the balance sheet	**4,230**	**3,117**
- non-taxable income achieved in a special technological zone	*3,554*	*2,797*
- other	*676*	*320*
[B] Taxable income not recognized in the balance sheet	**-**	**37**
- other	*-*	*37*
[C] Non-tax-deductible expenses recognized in the balance sheet	**(4,634)**	**(3,291)**
- non-tax-deductible expenses incurred in a technological zone	*(3,493)*	*(2,234)*
- representation expenses	*(112)*	*(129)*
- difference between the tax and accounting depreciation and amortization	*(144)*	*(171)*
- write-downs on receivables/inventories/tangible assets	*(352)*	*(229)*
- losses on contracts	*-*	*(101)*
- other	*(533)*	*(427)*
[D] Tax-deductible expenses not recognized in the balance sheet	**327**	**-**
-losses on contracts	*307*	*-*
-other	*20*	*-*
[E] Utilization of tax losses and change in deferred tax assets arising from tax losses	**(529)**	**3,575**
[F] Utilization of tax credits and other tax deductibles	**388**	**559**
[G] Change in estimates of deferred tax assets recognized on the so-called "external temporary differences" resulting from dividend payments within the Group	**(46)**	**(6,212)**
[H] Difference due to different rates of corporate income tax paid abroad	**2,505**	**2,243**
[I] Correction of an error in the calculation of deferred tax in previous reporting periods (+) / (-)	**(76)**	**6**
Corporate income tax at the effective tax rate of 15.45% in 2016 and 18.94% in 2015	**(9,419)**	**(10,162)**

	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Deferred tax assets		
Difference between tax depreciation and accounting depreciation	505	183
Receivables / Liabilities arising from book valuation of IT contracts	-	68
Valuation of financial assets and/or financial liabilities at fair value	276	79
Accruals, provisions and other liabilities	1,383	1,340
Allowances for receivables	225	293
Write-downs on inventories	1,780	1,354
Losses deductible against future taxable income	115	203
Other temporary differences	15	10
Total	**4,299**	**3,530**
Deferred tax liabilities		
Difference between tax depreciation and accounting depreciation	1,770	1,224
Prepayments and accrued income	804	844
Other temporary differences	432	282
Total	**3,006**	**2,350**
Deferred tax assets (+), net of deferred tax liabilities	**2,621**	**1,864**
Deferred tax liabilities (-), net of deferred tax assets	**1,328**	**684**

All figures in thousands of PLN, unless stated otherwise

6. Earnings per share

Basic earnings per share are computed by dividing net profit for the reporting period attributable to shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during that financial year. Both during the reporting period and the comparable period, there were no instruments that could potentially dilute basic earnings per share.

The table below presents net profits and numbers of shares used for the calculation of basic and diluted earnings per share:

	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Consolidated net profit for the reporting period attributable to Shareholders of ASEE S.A.	**51,468**	**43,580**
Weighted average number of ordinary shares outstanding, used for calculation of basic earnings per share	51,894,251	51,894,251
Consolidated earnings per share for the reporting period attributable to Shareholders of ASEE S.A. (in PLN)		
Basic consolidated earnings per share for the reporting period	0.99	0.84
Diluted consolidated earnings per share for the reporting period	0.99	0.84

7. Information on dividends paid out or declared

The Ordinary General Meeting of Shareholders of ASEE S.A. seated in Rzeszów, by its resolution passed on 31 March 2016, decided that the net profit for the financial year 2015 amounting to PLN 55,298,295.23, as well as retained earnings for the financial year 2013 amounting to PLN 2,825,183.42 and retained earnings for the financial year 2014 amounting to PLN 17,260,325.40 shall be distributed as follows:

a) the amount of PLN 4,423,863.62 from the net profit for the financial year 2015 was allocated to the reserve capital pursuant to art. 396 § 1 of the Commercial Companies Code;

b) the amount of PLN 21,795,585.42 was distributed among all the Company's shareholders through payment of a dividend amounting to PLN 0.42 per share;

c) the remaining portion of the net profit for 2015 amounting to PLN 49,164,355.01 was allocated to the capital reserve created by the Company in order to pay out dividends in future years and provide financing for the Company's investments.

The Company's Ordinary General Meeting of Shareholders established 30 June 2016 as the dividend record date. The dividend was paid out on 15 July 2016. The number of shares eligible for dividend was 51,894,251.

All figures in thousands of PLN, unless stated otherwise

8. Property, plant and equipment

for the year ended 31 December 2016 (audited)	Buildings and land	Outsourcing and other equipment	Transportation vehicles	Other tangible assets	Tangible assets under construction	Total
As at 1 January 2016, less accumulated depreciation	**-**	**78,110**	**5,082**	**624**	**2,553**	**86,369**
Additions, of which:	4,348	31,872	3,375	996	8,382	48,973
Purchases	-	17,283	1,899	996	8,382	28,560
Finance leases	-	-	1,468	-	-	1,468
Obtaining control over subsidiaries	4,348	1,092	5	-	-	5,445
Transfers from tangible assets under construction	-	7,589	-	-	-	7,589
Transfers from inventories	-	5,908	-	-	-	5,908
Other changes	-	-	3	-	-	3
Reductions, of which:	(75)	(26,185)	(1,978)	(380)	(7,589)	(36,207)
Depreciation charges for the reporting period (-)	(75)	(25,483)	(1,865)	(342)	-	(27,765)
Disposal and liquidation (-)	-	(700)	(113)	(17)	-	(830)
Transfers from tangible assets under construction (-)	-	-	-	-	(7,589)	(7,589)
Other changes (-)	-	(2)	-	(21)	-	(23)
Exchange differences on translation of foreign operations (+/-)	34	2,747	142	-	103	3,026
As at 31 December 2016, less accumulated depreciation	**4,307**	**86,544**	**6,621**	**1,240**	**3,449**	**102,161**
As at 1 January 2016						
Gross value	-	131,771	12,482	4,521	2,553	151,327
Accumulated depreciation (-)	-	(53,661)	(7,400)	(3,897)	-	(64,958)
Net book value as at 1 January 2016	**-**	**78,110**	**5,082**	**624**	**2,553**	**86,369**
As at 31 December 2016						
Gross value	4,902	168,412	14,603	5,561	3,449	196,927
Accumulated depreciation (-)	(595)	(81,868)	(7,982)	(4,321)	-	(94,766)
Net book value as at 31 December 2016	**4,307**	**86,544**	**6,621**	**1,240**	**3,449**	**102,161**

Some pieces of equipment have been transferred from inventories to tangible assets because they are utilized in the performance of our outsourcing contracts. Tangible assets under construction amounting to PLN 3,449 thousand (vs. PLN 2,553 thousand as at 31 December 2015) comprised mainly infrastructure that is being prepared to be rented in the outsourcing model.

for the year ended 31 December 2015 (audited)	Outsourcing and other equipment	Transportation vehicles	Other tangible assets	Tangible assets under construction	Total
As at 1 January 2015, less accumulated depreciation	**59,899**	**4,508**	**876**	**4,563**	**69,846**
Additions, of which:	39,623	2,484	254	7,712	50,073
Purchases	28,266	865	232	7,712	37,075
Finance leases	-	1,619	-	-	1,619
Transfers from tangible assets under construction	9,672	-	-	-	9,672
Transfers from inventories	1,682	-	-	-	1,682
Other changes	3	-	22	-	25
Reductions, of which:	(21,157)	(1,854)	(463)	(9,672)	(33,146)
Depreciation charges for the reporting period (-)	(20,071)	(1,522)	(455)	-	(22,048)
Disposal and liquidation (-)	(988)	(332)	(8)	-	(1,328)
Transfers from tangible assets under construction (-)	-	-	-	(9,672)	(9,672)
Other changes (-)	(98)	-	-	-	(98)
Exchange differences on translation of foreign operations (+/-)	(255)	(56)	(43)	(50)	(404)
As at 31 December 2015, less accumulated depreciation	**78,110**	**5,082**	**624**	**2,553**	**86,369**
As at 1 January 2015					
Gross value	97,512	12,592	4,455	4,563	119,122
Accumulated depreciation (-)	(37,613)	(8,084)	(3,579)	-	(49,276)
Net book value as at 1 January 2015	**59,899**	**4,508**	**876**	**4,563**	**69,846**
As at 31 December 2015					
Gross value	131,771	12,482	4,521	2,553	151,327
Accumulated depreciation (-)	(53,661)	(7,400)	(3,897)	-	(64,958)
Net book value as at 31 December 2015	**78,110**	**5,082**	**624**	**2,553**	**86,369**

As at 31 December 2016, tangible assets with a book value of PLN 2,516 thousand served as security for bank loans.

As at 31 December 2015, tangible assets with a book value of PLN 3,650 thousand served as security for bank loans.

All figures in thousands of PLN, unless stated otherwise

9. Intangible assets

for the year ended 31 December 2016 (audited)	Own software and licenses	Costs of development projects in progress	Software, patents and licenses purchased	Total
As at 1 January 2016, less accumulated amortization	**26,152**	**1,850**	**5,564**	**33,566**
Additions, of which:	4,904	5,433	5,658	15,995
Purchases	-	-	2,679	2,679
Obtaining control over subsidiaries	-	-	2,949	2,949
Capitalization of project development costs	-	5,433	-	5,433
Transfer of the costs of completed development projects	4,904	-	-	4,904
Changes in presentation methods	-	-	30	30
Reductions, of which:	(10,031)	(4,904)	(2,852)	(17,787)
Amortization charges for the reporting period (-)	(6,798)	-	(2,832)	(9,630)
Transfer of the costs of completed development projects (-)	-	(4,904)	-	(4,904)
Disposal and liquidation (-)	(3,233)	-	(20)	(3,253)
Exchange differences on translation of foreign operations (+/-)	(1,294)	(172)	(128)	(1,594)
As at 31 December 2016, less accumulated amortization	**19,731**	**2,207**	**8,242**	**30,180**
As at 1 January 2016				
Gross value	47,471	1,850	16,625	65,946
Accumulated amortization (-)	(21,319)	-	(11,061)	(32,380)
Net book value as at 1 January 2016	**26,152**	**1,850**	**5,564**	**33,566**
As at 31 December 2016				
Gross value	41,001	3,319	27,434	71,754
Accumulated amortization (-)	(22,160)	-	(19,414)	(41,574)
Net book value as at 31 December 2016	**18,841**	**3,319**	**8,020**	**30,180**

As at 31 December 2016, intangible assets did not serve as security for any bank loans.

During the period of 12 months ended 31 December 2016, the Group recognized the costs of liquidation of its proprietary software and licenses in the amount of PLN 3,233 thousand.

for the year ended 31 December 2015 (audited)	Own software and licenses	Costs of development projects in progress	Software, patents and licenses purchased	Total
As at 1 January 2015, less accumulated amortization	**20,463**	**12,409**	**5,242**	**38,114**
Additions, of which:	15,196	5,188	2,745	23,129
Purchases	-	-	2,745	2,745
Capitalization of project development costs	-	5,188	-	5,188
Transfer of the costs of completed development projects	15,196	-	-	15,196
Reductions, of which:	(7,573)	(15,196)	(2,100)	(24,869)
Amortization charges for the reporting period (-)	(6,273)	-	(2,072)	(8,345)
Transfer of the costs of completed development projects (-)	-	(15,196)	-	(15,196)
Disposal and liquidation (-)	(1,300)	-	(28)	(1,328)
Exchange differences on translation of foreign operations (+/-)	(1,934)	(551)	(323)	(2,808)
As at 31 December 2015, less accumulated amortization	**26,152**	**1,850**	**5,564**	**33,566**
As at 1 January 2015				
Gross value	36,458	12,409	14,848	63,715
Accumulated amortization (-)	(15,995)	-	(9,606)	(25,601)
Net book value as at 1 January 2015	**20,463**	**12,409**	**5,242**	**38,114**
As at 31 December 2015				
Gross value	47,471	1,850	16,625	65,946
Accumulated amortization (-)	(21,319)	-	(11,061)	(32,380)
Net book value as at 31 December 2015	**26,152**	**1,850**	**5,564**	**33,566**

As at 31 December 2015, intangible assets did not serve as security for any bank loans.

During the period of 12 months ended 31 December 2015, the Group recognized the costs of liquidation of its proprietary software and licenses in the amount of PLN 1,300 thousand.

All figures in thousands of PLN, unless stated otherwise

Development projects

The Group carries out development projects focusing on the generation of new software or significant modification/extension of applications already marketed by the Group.

In the year ended 31 December 2016, the total capitalized costs of development projects amounted to PLN 5,433 thousand, in comparison to PLN 5,188 thousand spent in the previous year ended 31 December 2015.

In 2016, capitalized costs of development projects were incurred in the following operating segments:

	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Banking Solutions	3,668	3,186
Payment Solutions	570	368
Systems Integration	1,195	1,634
	5,433	**5,188**

Within the Banking Solutions segment, capitalized expenditures were primarily related to the development of Digital Edge modules (including Digital Edge Web and Digital Edge Mobile channels), which is a digital banking platform with a set of customer engagement capabilities and functionalities available over remote access channels just as at bank branches.

Furthermore, in 2016 we capitalized expenditures made for the development of InACT software (transaction monitoring, anti-fraud and anti-money laundering solution).

Within the Payment Solutions segment, capitalized expenditures were related to the development of MerchantSafe® Unipay software. (MSU) is a solution allowing for the tokenization of payment cards, which significantly reduces merchant risks. This solution enables merchants to collect payments remotely from various banks. MSU is an online payment solution offering secure, easy and convenient checkout experience for both buyers and merchants, from multiple access points such as web, ERP systems, CRM systems and e-mail.

Major products developed by the Systems Integration segment in 2016 included Fidelity (comprehensive solution that automates the full lifecycle of assets and spending processes) and LeaseFlex (fully-fledged lease and asset lifecycle management solution dedicated to leasing companies).

The value of completed development projects amounted to PLN 4,904 thousand in the period of 12 months ended 31 December 2016, as compared with PLN 15,196 thousand in 2015.

In the Banking Solutions segment, the costs of completed development work were related to a series of Experience products as well as Digital Edge solution, which is a digital banking platform with a set of touchpoint applications and a set of customer engagement capabilities that ensure customer data flows seamlessly across both self-service and assisted touchpoints (Multichannel).

In the Payment Solutions segment, the costs of completed development work were related to Fidelity software and LeaseFlex software modules.

In line with the requirements of IAS 36 Impairment of Assets, the Group measured the recoverable amount of the costs of development projects in progress as at 31 December 2016. Components of intangible assets that are not yet available for use shall be valued on an annual basis, regardless of whether there are indications of possible impairment. During both the financial years 2016 and 2015, the Group did not make any impairment write-downs on development projects in progress.

10. Goodwill and business combinations

During the reporting period and comparable period, the amount of goodwill changed as follows:

	31 Dec. 2016 (audited)	31 Dec. 2015 (restated)
Goodwill at the beginning of the period	**488,566**	**497,079**
Banking Solutions	193,556	195,611
Payment Solutions	110,292	112,810
Systems Integration	184,718	188,658
Change in consolidation goodwill due to the acquisition of shares (+)	**6,409**	-
Banking Solutions	6,315	-
Payment Solutions	94	-
Systems Integration	-	-
Exchange differences on translation of goodwill in foreign subsidiaries (+/-)	**10,659**	**(8,513)**
Banking Solutions	5,878	(2,055)
Payment Solutions	1,456	(2,518)
Systems Integration	3,325	(3,940)
Total book value at the end of period	**505,634**	**488,566**
Banking Solutions	205,749	193,556
Payment Solutions	111,842	110,292
Systems Integration	188,043	184,718

All figures in thousands of PLN, unless stated otherwise

Acquisition of Chip Card a.d. (Serbia)

On 14 March 2016, ASEE Serbia, a subsidiary of ASEE S.A. was registered as the holder of 136,121 shares, representing 53.81% of the share capital as well as 53.81% of total voting rights in Chip Card a.d. The control over that company was obtained on 1 April 2016. The purchase price of these shares amounted to EUR 1,171 thousand (PLN 5,133 thousand). In the statement of cash flows, this amount has been presented in investing activities, net of cash held by the acquired company as at the acquisition date, i.e. after deducting EUR 368 thousand (PLN 1,589 thousand).

On 28 April, 5 July and 25 November 2016, ASEE Serbia acquired additional stakes in Chip Card: 7.49% of shares for EUR 163 thousand, 15.59% of shares for EUR 342 thousand, and 8.13% of shares for EUR 179 thousand, respectively, as a result of which its shareholding in the acquired company increased to the level of 85.02%. Expenditures for the acquisition of these non-controlling interests amounting in total to EUR 684 thousand (PLN 2,970 thousand) have been disclosed in the statement of cash flows in financing activities.

Chip Card is engaged in processing and authentication of payment transactions.

As at 31 December 2016, the process of purchase price allocation has not yet been completed. Therefore, goodwill recognized on this acquisition may be subject to change in the period of 12 months from the date of obtaining control over this company. The provisional values of identifiable assets and liabilities of the acquired company as at the acquisition date are presented below:

Chip Card	Provisional value as at the acquisition date
Non-current assets	**7,331**
Intangible assets	2,336
Real estate	4,204
Other property, plant and equipment	791
Current assets	**2,697**
Receivables	1,108
Cash and short-term deposits	1,589
TOTAL ASSETS	**10,028**
Equity	**9,364**
Liabilities and provisions	**664**
TOTAL EQUITY AND LIABILITIES	**10,028**
Purchase price	**5,133**
Equity interest acquired	**53.81%**
Value of net assets acquired	**5,039**
Goodwill as at the acquisition date	**94**

Goodwill arising from the acquisition of shares in this company has been allocated to the Payment Solutions segment.

Acquisition of a 25% stake in E-Mon Montenegro

On 6 October 2016, ASEE Serbia signed an agreement to purchase 25% of shares in the company E-Mon, Montenegro. The transaction value amounted to EUR 650 thousand (PLN 2,841 thousand). In the statement of cash flows, this amount has been presented in investing activities, net of cash held by the acquired company as at the acquisition date, i.e. after deducting EUR 357 thousand (PLN 1,564 thousand).

Following this acquisition, the shareholding of ASEE Serbia in the acquired company increased from 50% to 75%. The control over that company was obtained in November 2016, after making the payment and official registration of the purchase. The results of E-Mon Montenegro have been fully consolidated in these financial statements since 1 November 2016. Until the date of obtaining control, that company was accounted for using the equity method. As at 31 December 2016, the process of purchase price allocation has not yet been completed. Therefore, goodwill recognized on this acquisition may be subject to change in the period of 12 months from the date of obtaining control over this company. The provisional values of identifiable assets and liabilities of the acquired company as at the acquisition date are presented below:

E-Mon, Montenegro	Provisional values at the acquisition date
Non-current assets	**1,063**
Property, plant and equipment	450
Intangible assets	613
Current assets	**2,086**
Receivables	399
Cash and short-term deposits	1,564
Other	123
TOTAL ASSETS	**3,149**
Equity	2,809
Liabilities and provisions	340
TOTAL EQUITY AND LIABILITIES	**3,149**
25% interest – acquisition price	**2,841**
50% interest held – fair value	**5,556**
25% non-controlling interest – share in net assets	**727**
Net assets value	**2,809**
Goodwill as at the acquisition date	**6,315**

The fair value of the 50% interest held has been determined on the basis of a valuation prepared by an independent expert.

Goodwill arising from the acquisition of shares in this company has been allocated to the Banking Solutions segment.

All figures in thousands of PLN, unless stated otherwise

Impairment testing of goodwill

Goodwill is subject to impairment testing on an annual basis.

Goodwill resulting from the acquisition of subsidiaries was tested for impairment of value as at 31 December 2016. The value of cash-generating units (to which goodwill has been allocated) was determined on the basis of their recoverable amount, by applying the model of discounted free cash flow to firm (FCFF).

The calculations were based on the following uniform assumptions:

- the so-called business units were analyzed which, when put together, comprise the budget and forecasts of the whole Group;
- detailed forecasts covered the period of 5 years, for which increasing cash flows were assumed, while for further time of each subsidiary operations the residual value was computed assuming no growth in cash flows;
- the assumed increases in cash flows depend upon the strategy of the entire Group, plans of individual companies, they take due account of conditions prevailing in particular markets by region and sector, and at the same time they reflect the present and potential order backlogs. The potential order backlog presumes gaining new clients whilst keeping the present ones. The assumed rates of growth are not materially different from average growth observed in relevant markets,
- forecasts for foreign subsidiaries assume growth in EUR;
- the discount rate applied was equivalent to the weighted average cost of capital in the market of South Eastern Europe.

Based on the conducted tests, we did not recognize any impairment write-downs on goodwill in the year ended 31 December 2016 nor in the comparable period**.**

Additionally, the Parent Company carried out a sensitivity analysis of the impairment tests conducted on goodwill arising from the acquisition of shares in its subsidiaries.

The results of such sensitivity analysis as at 31 December 2016 and 31 December 2015 have been summarized in the following tables:

31 Dec. 2016	Discount rate		Sales revenue growth rate	
	applied in the model	terminal	applied in the model	terminal
Banking Solutions	9.74%	15.56%	6.89%	2.89%
Payment Solutions	9.07%	16.29%	7.47%	3.11%
Systems Integration	9.84%	11.15%	6.79%	6.02%

In the case of goodwill allocated to the Systems Integration segment, the recoverable amount of this investment would be equal to its carrying value if the discount rate applied in the model was changed by 1.3 pp with other assumptions remaining constant, or if the sales revenue growth rate was changed by 0.77 pp with other assumptions remaining constant. As at 31 December 2016, the excess of the recoverable amount of goodwill allocated to the Systems Integration segment over its carrying value equalled PLN 30 million.

Any reasonable modification of the key assumptions adopted in the model of valuation of goodwill allocated to the remaining two segments should not indicate a necessity of recognizing any goodwill impairment charges.

Due to recognizing write-downs on our investments in ASEE Kosovo and ASEE Bulgaria in the standalone financial statements of ASEE S.A. prepared as at 31 December 2016, we have analyzed net assets of those companies disclosed in the consolidated financial statements of ASEE Group as at 31 December 2016 with regard to their possible impairment. The analysis was based on the model for forecasting of free cash flows, as used to estimate the value of investments in ASEE Kosovo and ASEE Bulgaria disclosed in the standalone financial statements of ASEE S.A. The conducted test did not indicate a necessity to recognize any impairment charges on net assets of those companies disclosed in the consolidated financial statements of the Group as at 31 December 2016. Goodwill arising from the acquisition of ASEE Kosovo has been allocated to all the three operating segments identified in the consolidated financial statements of ASEE Group, while goodwill arising from the acquisition of ASEE Bulgaria has been allocated to the Payment Solutions segment.

31 Dec. 2015	Discount rate		Sales revenue growth rate	
	applied in the model	terminal	applied in the model	terminal
Banking Solutions	9.1%	15.5%	6.9%	2.5%
Payment Solutions	8.4%	17.5%	6.0%	-1.0%
Systems Integration	8.6%	11.9%	11.5%	9.5%

In the case of goodwill allocated to the Systems Integration segment, the recoverable amount of this investment would be equal to its carrying value if the discount rate applied in the model was changed by 3.3 pp with other assumptions remaining constant, or if the sales revenue growth rate was changed by 2 pp with other assumptions remaining constant. As at 31 December 2015, the excess of the recoverable amount of goodwill allocated to the Systems Integration segment over its carrying value equalled PLN 80 million.

All figures in thousands of PLN, unless stated otherwise

Any reasonable modification of the key assumptions adopted in the model of valuation of goodwill allocated to the remaining two segments should not indicate a necessity of recognizing any goodwill impairment charges.

The sales revenue growth rate specified in the tables above was calculated as the compound annual growth rate (CAGR), this is an average annual growth rate over the analyzed period, assuming that each year-on-year increase is added to the next period's base.

11. Inventories

Inventories	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Goods for resale	25,388	16,873
Maintenance inventories	9,870	7,437
Write-down on inventories (-)	(11,784)	(8,804)
	23,474	**15,506**

In the year ended 31 December 2016, the Group recognized impairment write-downs on inventories in the amount of PLN 4,070 thousand, while the amount of reversed write-downs equalled PLN 1,259 thousand. In the year ended 31 December 2015, the Group recognized impairment write-downs on inventories in the amount of PLN 2,984 thousand, while the amount of reversed write-downs equalled PLN 1,554 thousand.

Both as at 31 December 2016 and 31 December 2015, inventories did not serve as security for any bank loans.

12. Short-term receivables

Trade receivables	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Trade receivables, of which:	117,511	75,231
From related parties	837	566
From other entities	119,940	77,541
Allowance for doubtful receivables (-)	(3,266)	(2,876)
Receivables from uninvoiced deliveries, of which:	8,987	8,452
From related parties	25	-
From other entities	8,962	8,452
	126,498	**83,683**

Trade receivables are non-interest bearing.

As at 31 December 2016, receivables in the amount of PLN 1,720 thousand served as security for bank loans and bank guarantee facilities. As at 31 December 2016, we had no liabilities under bank loans secured with such assets; however, bank guarantees extended under a bank guarantee facility secured with those receivables amounted to PLN 5,283 thousand.

As at 31 December 2015, receivables in the amount of PLN 883 thousand served as security for bank loans and bank guarantee facilities. As at 31 December 2015, we had no liabilities under bank loans secured with such assets; however, bank guarantees extended under a bank guarantee facility secured with those receivables amounted to PLN 3,176 thousand.

Receivables from the state and local	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Value added tax	428	438
Corporate income tax (CIT)	166	91
Other	574	466
	1,168	**995**

Other receivables	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Advance payments to suppliers	2,403	2,036
Security deposits receivable	354	451
Other receivables	875	510
	3,632	**2,997**

Advance payments to suppliers correspond to advances paid to subcontractors on account of the execution of contracts.

Other receivables disclosed as at 31 December 2016 include, among others, restricted cash amounting to PLN 174 thousand as compared with PLN 166 thousand as at 31 December 2015.

In addition, other receivables disclosed as at 31 December 2016 and 31 December 2015 include receivables from employees.

All figures in thousands of PLN, unless stated otherwise 36

13. Financial assets

	31 Dec. 2016 (audited)	Acquired / Granted / Deposited	Disposed / Repaid / Withdrawn	Foreign currency translation differences	31 Dec. 2015 (audited)
Assets available for sale					
Shares in companies listed on regulated markets	117	6	-	2	109
Shares in companies not listed on regulated markets	21	-	-	1	20
Total, of which:	**138**	**6**	**-**	**3**	**129**
- long-term	*111*				*101*
- short-term	*27*				*28*
Loans granted					
Loans granted to unrelated entities	89	124	(36)	1	-
Loans granted to employees	-	-	(51)	2	49
Total, of which:	**89**	**124**	**(87)**	**3**	**49**
- long-term	*44*				-
- short-term	*45*				*49*
Cash deposits					
Deposits for 3 to 12 months	22	4	-	1	17
Deposits for over 12 months	7	-	(69)	-	76
Total, of which:	**29**	**4**	**(69)**	**1**	**93**
- long-term	*7*				*76*
- short-term	*22*				*17*
Financial assets carried at fair value through profit or loss					
Investment fund units	2,996	16,350	(16,156)	183	2,619
Total, of which:	**2,996**	**16,350**	**(16,156)**	**183**	**2,619**
- short-term	*2,996*				*2,619*

As at 31 December 2016, financial assets carried at fair value through profit or loss included investment fund units with a value of PLN 2,996 thousand that are held by ASEE Macedonia. During the year 2016, expenditures for the acquisition of investment fund units amounted to PLN 16,350 thousand.

The book values of financial assets held by the Group as at 31 December 2016 and 31 December 2015 did not differ from their fair values.

The levels of in the fair value hierarchy of financial assets have been presented in explanatory note 36 to these financial statements.

14. Cash and short-term deposits

	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Cash at bank and in hand	80,745	41,558
Short-term bank deposits	38,801	59,512
Cash equivalents	-	5
	119,546	**101,075**
Interest accrued on cash and cash equivalents as at the end of the reporting period	*(47)*	*(14)*
Overdraft facilities utilized for liquidity management	*(1,441)*	*(1,193)*
Cash and cash equivalents as disclosed in the cash flow statement	**118,058**	**99,868**

15. Prepayments and accrued income

Long-term	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Prepaid maintenance services and license fees	527	244
Other	108	261
	635	**505**

Short-term	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Prepaid maintenance services and license fees	9,883	7,489
Prepaid insurance	644	583
Prepaid rents	391	591
Prepaid consulting services	773	1,068
Other prepaid services	845	362
Costs of services performed for which revenues have not been recognized yet	556	883
Other	1,288	1,258
	14,380	**12,234**

Both as at 31 December 2016 and 31 December 2015, prepayments included primarily the costs of maintenance services and licensing fees amounting to PLN 10,410 thousand and PLN 7,733 thousand, respectively, that will be successively expensed in future periods.

All figures in thousands of PLN, unless stated otherwise

16. Share capital

Share capital / Shares	Series	Par value per share	Number of shares	31 Dec. 2016 (audited) Value of shares	Number of shares	31 Dec. 2015 (audited) Value of shares
Ordinary registered shares	A*	0.1	5,000,000	500	5,000,000	500
Ordinary registered shares	B*	0.1	5,000,000	500	5,000,000	500
Ordinary registered shares	C*	0.1	2,567,000,900	256,700	2,567,000,900	256,700
Ordinary registered shares	D	10	25,770,009	257,700	25,770,009	257,700
Ordinary registered shares	E	10	956,447	9,565	956,447	9,565
Ordinary registered shares	F	10	1,475,509	14,755	1,475,509	14,755
Ordinary registered shares	G	10	2,708,378	27,084	2,708,378	27,084
Ordinary registered shares	H	10	1,062,030	10,620	1,062,030	10,620
Ordinary registered shares	I	10	1,770,609	17,706	1,770,609	17,706
Ordinary registered shares	J	10	1,714,209	17,142	1,714,209	17,142
Ordinary registered shares	K	10	4,590,470	45,905	4,590,470	45,905
Ordinary registered shares	L	10	2,100,000	21,000	2,100,000	21,000
Ordinary registered shares	M	10	4,810,880	48,109	4,810,880	48,109
Ordinary registered shares	N	10	1,078,909	10,789	1,078,909	10,789
Ordinary registered shares	P	10	1,524,269	15,242	1,524,269	15,242
Ordinary registered shares	R	10	592,941	5,929	592,941	5,929
Ordinary registered shares	S	10	837,472	8,375	837,472	8,375
Ordinary registered shares	T	10	902,119	9,021	902,119	9,021
			51,894,251	**518,942**	**51,894,251**	**518,942**

* Following a reverse split of series D shares

The shareholders who, either directly or through their subsidiaries, held at least 5% of total voting rights at the Company's General Meeting of Shareholders were as follows:

As at 17 February 2017

Name of shareholder	Number of shares held and votes at GMS	Equity interest and voting rights at GMS
Asseco Poland S.A.	28,716,032	55.34%
Aviva Pension Fund	8,609,136	16.59%
Other shareholders	14,569,083	28.07%
	51,894,251	**100.00%**

As at 31 December 2016

Name of shareholder	Number of shares held and votes at GMS	Equity interest and voting rights at GMS
Asseco Poland S.A.	28,716,032	55.34%
Aviva Pension Fund	8,609,136	16.59%
Other shareholders	14,569,083	28.07%
	51,894,251	**100.00%**

As at 31 December 2015

Name of shareholder	Number of shares held and votes at GMS	Equity interest and voting rights at GMS
Asseco Poland S.A.	26,494,676	51.06%
Aviva Pension Fund	6,571,636	12.66%
EBRD	4,810,880	9.27%
Liatris d.o.o.	3,364,898	6.48%
Other shareholders	10,652,161	20.53%
	51,894,251	**100.00%**

Both as at 31 December 2016 and 31 December 2015, the share capital of ASEE S.A. amounted to PLN 518,942,510 and was divided into 51,894,251 ordinary shares with a par value of PLN 10.00 each, which entitled to 51,894,251 votes at the Company's General Meeting of Shareholders.

17. Share premium

Equity includes share premium in the amount of PLN 30,395 thousand arising from the issuances of shares of series L, M and N, which was decreased by the incurred share issuance costs of PLN 3,605 thousand (recognized in 2009), as well as share premium in the amount of PLN 11,759 thousand arising from the issuance of shares of series P, R and S, which was decreased by the incurred share issuance costs of PLN 84 thousand (recognized in 2010). The share premium was additionally increased by the amount of PLN 396 thousand due to the reversal of a provision for issuance related expenses, and decreased by other costs of PLN 36 thousand.

18. Non-controlling interests

The table below presents changes in non-controlling interests:

	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
At the beginning of the period	**-**	**162**
Share in profits of subsidiaries	80	(78)
Acquisition of shares in subsidiaries	5,063	-
Acquisition of non-controlling interests	(2,933)	-
Exchange differences on translation of foreign operations	-	3
Dividends paid out to non-controlling shareholders	-	(87)
At the end of the period	**2,210**	**-**

Acquisition of shares in subsidiaries was related to the recognition of minority interests upon taking control of Chip Card company (non-controlling interests of 46.19% with a value of PLN 4,359 thousand) as well as taking control of E-Mon company (non-controlling interests of 25% with a value of PLN 704 thousand). Acquisition of non-controlling interests resulted from the increase of ASEE Serbia's shareholding in the company Chip Card (acquisition of additional 31.2% of shares).

All figures in thousands of PLN, unless stated otherwise

19. Provisions

	Provisions for warranty repairs and product returns	Provisions for contractual penalties	Costs related to ongoing court litigation	Post-employment benefits	Other provisions	Total
As at 1 January 2016	**768**	**-**	**251**	**960**	**697**	**2,676**
Created during the financial year	394	92	-	547	43	**1,076**
Utilized (-)	(212)	(92)	(63)	(5)	(59)	**(431)**
Reversed (-)	(406)	-	-	(73)	(518)	**(997)**
Changes in presentation methods (+/-)	-	-	-	-	(93)	**(93)**
Exchange differences on translation of foreign operations (+/-)	22	-	(22)	(99)	6	**(93)**
As at 31 December 2016 (audited)	**566**	**-**	**166**	**1,330**	**76**	**2,138**
Short-term	566	-	-	222	76	**864**
Long-term	-	-	166	1,108	-	**1,274**
As at 31 December 2015 (audited)	**768**	**-**	**251**	**960**	**697**	**2,676**
Short-term	768	-	-	55	697	**1,520**
Long-term	-	-	251	905	-	**1,156**

Warranty repairs

The provision for the costs of warranty repairs was created in connection with our obligations to provide contractually guaranteed repair services on software and hardware products supplied to our clients. The amount of reversed provisions represents our project-related provisions that were created in previous periods (based on historical data) and, subsequently, were not utilized for such projects.

Post-employment benefits

The provision for post-employment benefits represents retirement benefits which are to be paid to the Group's employees when they go into retirement.

20. Long-term and short-term financial liabilities

Long-term	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Currency forward contracts	821	394
Finance lease liabilities	1,935	1,629
	2,756	**2,023**

Short-term	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Currency forward contracts	240	31
Finance lease liabilities	923	663
Other	35	56
	1,198	**750**

21. Interest-bearing bank loans and borrowings

Effective interest rate %	Currency	Repayment date	Amounts drawn as at 31 Dec. 2016 (audited) long-term portion	31 Dec. 2016 (audited) short-term portion	31 Dec. 2015 (audited) long-term portion	31 Dec. 2015 (audited) short-term portion
BANK OVERDRAFT FACILITIES						
fixed interest rate	BAM	01-07-2016	-	-	-	649
fixed interest rate	MKD	31-12-2016	-	13	-	4
fixed interest rate	MKD	31-12-2016	-	26	-	22
6M EURIBOR + margin	EUR	31-03-2017	-	960	-	315
3M EURIBOR + margin	EUR	21-06-2016	-	-	-	852
fixed interest rate	EUR	10-03-2017	-	442	-	-
OTHER BANK LOANS						
1M EURIBOR + margin	EUR	15-06-2017	-	9,975	-	7,285
-	TRY	01-01-2017	-	6	-	3
-	TRY	01-07-2016	-	-	-	144
EURIBOR + margin	EUR	19-03-2016	-	-	-	458
3M EURIBOR + margin	HRK/EUR	30-04-2019	4,955	3,716	8,347	3,577
3M EURIBOR + margin	HRK/EUR	31-12-2022	3,161	709	-	-
3M EURIBOR + margin	EUR	30-04-2019	624	916	430	1,155
fixed interest rate	BAM	08-05-2017	-	158	174	338
12M Treasury bonds + margin	HRK/EUR	30-11-2016	-	-	-	1,859
12M EURIBOR + margin	HRK/EUR	31-03-2017	-	883	846	3,383
fixed interest rate	RSD	28-01-2016	-	-	-	436
EURIBOR + margin	EUR	30-06-2021	1,863	532	-	-
1M EURIBOR + margin	EUR	18-12-2020	11,204	4,453	15,052	-
			21,807	**22,789**	**24,849**	**20,480**

All figures in thousands of PLN, unless stated otherwise

The Group's total debt amounted to PLN 44,596 thousand as at 31 December 2016 (vs. PLN 45,329 thousand as at 31 December 2015), of which loans obtained in order to finance our projects of payment processes outsourcing amounted to PLN 43,149 thousand (vs. PLN 43,340 thousand in the comparable period).

Total proceeds from and repayments of bank loans disclosed in the statement of cash flows for the year 2016 amounted to PLN 12.6 million (proceeds) and PLN 15.3 million (repayments). New bank loans have been utilized for our capital expenditures for POS terminals and ATMs in Croatia, Serbia, Romania, and Slovenia. Whereas, the repayments were related primarily to bank loans obtained by our companies to finance their purchases of POS terminals in previous years.

As at 31 December 2016, tangible assets with a book value of PLN 2,516 thousand served as security for bank loans. As at 31 December 2016, liabilities that were secured with such assets amounted to PLN 10,133 thousand. As at 31 December 2015, tangible assets with a book value of PLN 3,650 thousand served as security for bank loans. As at 31 December 2015, liabilities that were secured with such assets amounted to PLN 8,255 thousand.

In the reporting period, the margins realized by lenders to ASEE Group companies ranged from 1.5 to 4.8 percentage points on an annual basis.

Whereas, in the comparable period such margins ranged from 1.5 to 4.5 percentage points per annum.

22. Current liabilities

Trade payables	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Trade payables, of which:	61,046	41,186
To related parties	190	187
To other entities	60,856	40,999
Liabilities for uninvoiced deliveries, of which:	7,628	5,815
To related parties	-	-
To other entities	7,628	5,815
	68,674	**47,001**

The term for repayment of the Group's liabilities is 43 days on average.

Other current liabilities	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Liabilities to employees relating to salaries	12,127	6,843
Trade prepayments received	9,419	8,073
Liabilities for purchases of tangible assets and intangible assets	1,179	170
Other liabilities	648	262
	23,373	**15,348**

Current liabilities to the state and local budgets	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Value added tax	16,563	9,355
Corporate income tax (CIT)	2,539	1,032
Personal income tax (PIT)	2,014	1,705
Social security payable	3,260	2,181
Other	306	482
	24,682	**14,755**

23. Accruals and deferred income

Short-term accruals	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Accrual for unused holiday leaves	1,928	2,105
Accrual for employee bonuses	11,687	12,292
	13,615	**14,397**

Accruals comprise accruals for unused holiday leaves as well as accruals for employee bonuses of the current period to be paid out in future periods, which result from the incentive schemes applied by ASEE Group.

Long-term deferred income	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Prepaid maintenance services	1,284	152
Grants for the development of assets	-	497
Other	134	15
	1,418	**664**

Short-term deferred income	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Maintenance services	13,609	9,428
Prepaid implementation services	1,894	794
License fees	419	56
Grants for the development of assets	443	191
Other	5,387	2,063
	21,752	**12,532**

The balance of deferred income relates mainly to prepayments received for services to be provided, such as support and maintenance services.

The line of "Other" includes prepayments received under infrastructure contracts for equipment to be delivered during 2017.

24. Implementation contracts

In the years 2016 and 2015, ASEE Group executed a number of the so-called IT implementation contracts. In line with IAS 11, sales generated from such contracts are recognized according to the percentage of completion of relevant contracts. In 2016 and 2015, the Group measured the percentage of completion of IT implementation contracts using the "cost-to-cost" method (this is by determining the relation of costs incurred to the overall project costs) or by the "effort-expended" method.

All figures in thousands of PLN, unless stated otherwise

In the year ended 31 December 2016, sales revenues recognized from the execution of all long-term IT contracts reached PLN 54,223 thousand; whereas, in the comparable period of 2015 they amounted to PLN 56,208 thousand.

The following table includes basic data about the ongoing IT implementation contracts. It presents the aggregate data for contracts being in progress as at 31 December 2016, accumulated since their commencement:

	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Long-term IT contracts in progress at the end of the reporting period:		
Costs incurred due to execution of IT contracts (-)	(58,518)	(44,141)
Profit (loss) on execution of IT contracts	**7,976**	**7,428**
Invoiced sales revenues from execution of IT contracts	62,652	40,299
Receivables arising from valuation of IT contracts	11,722	15,951
Liabilities arising from valuation of IT contracts (-)	(6,149)	(1,914)
Provision for losses arising from valuation of IT contracts (-)	(1,662)	(2,648)
Exchange differences on translation of foreign operations (+/-)	(69)	(119)

25. Finance leases – the Group acting as a lessee

Companies of ASEE Group are parties to a number of finance lease agreements for cars and IT hardware. The aggregate future cash flows and liabilities under such finance leases of cars and equipment are as follows:

Leasing of cars and equipment	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Minimum lease payments		
in the period shorter than 1 year	1,023	745
in the period from 1 to 5 years	2,042	1,726
in the period longer than 5 years	-	-
Future minimum lease payments	**3,065**	**2,471**
Future interest expense	(207)	(179)
Present value of finance lease commitment	**2,858**	**2,292**
in the period shorter than 1 year	923	663
in the period from 1 to 5 years	1,935	1,629
in the period longer than 5 years	-	-

26. Outsourcing contracts – the Group acting as a lessor

The Group implements a number of contracts for outsourcing of payment transaction processes. The total amounts of future minimum lease payments receivable under such contracts have been estimated as follows:

Future minimum lease payments	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
(i) within 1 year	41,022	32,256
(ii) within 1 to 5 years	46,892	56,590
(iii) within more than 5 years	2,598	4,234
	90,512	**93,080**

27. Information and explanations to the statement of cash flows

The table below presents expenditures incurred by ASEE Group in the years ended 31 December 2016 and 31 December 2015 for the acquisition of shares in subsidiaries as well as for the acquisition of non-controlling interests:

Acquisition of shares in subsidiaries and associates	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
E-Mon, Montenegro	(2,841)	-
Chip Card, Serbia	(5,133)	-
EŽR Croatia	-	(1,686)
	(7,974)	**(1,686)**
Cash in acquired companies	3,153	-
	(4,821)	**(1,686)**

Acquisition of non-controlling interests	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Chip Card, Serbia	(2,970)	-
	(2,970)	**-**

28. Contingent liabilities and receivables

Within its commercial activities ASEE Group uses bank guarantees, letters of credit, contract performance guarantees as well as tender deposits as forms of securing its business transactions with miscellaneous organizations, companies and administration bodies. As at 31 December 2016, the related contingent liabilities equalled PLN 29,561 thousand, while as at 31 December 2015 they amounted to PLN 27,638 thousand.

Assets serving as security for bank guarantee facilities:

Category of assets	Net value of assets		Amount of granted guarantee secured with assets	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Trade receivables	1,720	883	5,283	3,176
Other receivables (restricted cash)	167	159	1,466	2,259
Total	**1,887**	**1,042**	**6,749**	**5,435**

All figures in thousands of PLN, unless stated otherwise

As the Group companies rent office space, both as at 31 December 2016 and 31 December 2015, the Group was a party to a number of rental, leasing and other contracts of similar nature, resulting in the following future payments:

Liabilities under leases of space	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
In the period up to 1 year	13,842	12,503
In the period from 1 to 5 years	14,180	22,862
	28,022	**35,365**

Liabilities under operating lease of property, plant and equipment	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
In the period up to 1 year	1,492	2,304
In the period from 1 to 5 years	1,599	2,057
	3,091	**4,361**

29. Cases in court

As at 31 December 2016, ASEE Romania is a party to legal proceedings brought by ROmsys S.R.L., which demands ASEE Romania to pay a compensation in the amount of EUR 569 thousand (initial estimation) in order to compensate for the losses so far incurred due to alleged unfair competition. The Management of ASEE Romania, after seeking legal opinion, believes it is unlikely that the company will incur any significant losses in connection with these proceedings. In line with the Management's standpoint, as at 31 December 2016, ASEE Romania created a provision for the costs of court proceedings only.

30. Information on related parties

The table below presents the structure of ASEE Group along with equity interests and voting rights at the general meetings of shareholders/partners of ASEE Group companies as at 31 December 2016 and 31 December 2015:

Full name of entity	Short name as used in this report	Country of registration	Equity interest / Voting rights 31 Dec. 2016	31 Dec. 2015
Asseco South Eastern Europe S.A.	**ASEE S.A.**	Poland		
Asseco SEE s.r.l. (Bucharest)	**ASEE Romania**	Romania	100.00%	100.00%
Asseco s.r.l. MOLDOVA	ASEE Moldova	Moldova	100.00%	100.00%
Asseco SEE d.o.o., Beograd	**ASEE Serbia**	Serbia	100.00%	100.00%
E-Mon d.o.o., Podgorica	E-Mon, Montenegro	Montenegro	75.00%	50.00%
eMS d.o.o., Beograd	eMS, Serbia	Serbia	100.00%	100.00%
Multicard d.o.o., Beograd	Multicard, Serbia	Serbia	45.00%	45.00%
Chip Card a.d., Beograd	Chip Card, Serbia	Serbia	85.02%	n/a
Asseco SEE d.o.o. (Zagreb)	**ASEE Croatia**	Croatia	100.00%	100.00%
Asseco SEE Sh.p.k. (Pristina)	**ASEE Kosovo**	Kosovo	100.00%	100.00%
Asseco SEE Sh.p.k., Tirana	ASEE Albania	Albania	100.00%	100.00%
Asseco SEE Teknoloji A.Ş. (Istanbul)	**ASEE Turkey**	Turkey	100.00%	100.00%
NestPay Odeme Hizmetleri A.S.	ASEE NestPay	Turkey	100.00%	100.00%
Asseco SEE d.o.o., (Ljubljana)	**ASEE Slovenia**	Slovenia	100.00%	100.00%
Asseco SEE DOOEL, Skopje	**ASEE Macedonia**	Macedonia	100.00%	100.00%
Asseco SEE d.o.o. (Sarajevo)	**ASEE B&H**	Bosnia and Herzegovina	100.00%	100.00%
Asseco SEE o.o.d., Sofia	**ASEE Bulgaria**	Bulgaria	100.00%	100.00%
Asseco SEE d.o.o., Podgorica	**ASEE Montenegro**	Montenegro	100.00%	100.00%

The parent of Asseco South Eastern Europe S.A. is Asseco Poland S.A. (the higher-level parent company).

As at 31 December 2016, Asseco Poland S.A. held a 55.34% stake in the share capital of ASEE S.A.

Within ASEE Group's organizational structure, Multicard Serbia is an associated company accounted for using the equity method.

On 1 November 2016, ASEE Serbia obtained control over E-Mon Montenegro. The results of that company have been fully consolidated in these financial statements since the date of obtaining control till the end of the reporting period. Until the date of obtaining control, that company was treated as a jointly controlled company and therefore consolidated under the equity method.

The remaining companies incorporated within the Group are treated as subsidiaries and are subject to full consolidation.

Both as at 31 December 2016 and 31 December 2015, voting rights held by the Group in ASEE Group companies were equivalent to the Group's equity interests in these entities.

All figures in thousands of PLN, unless stated otherwise

Changes in ASEE Group composition

During the year ended 31 December 2016, the organizational structure of ASEE Group changed as follows:

Acquisition of Chip Card a.d. (Serbia)

On 14 March 2016, ASEE Serbia, a subsidiary of ASEE S.A., was registered as the owner of 136,121 shares, representing 53.81% of the share capital in Chip Card a.d. The control over that company was obtained on 1 April 2016. The purchase price of these shares amounted to EUR 1,171 thousand (PLN 5,133 thousand). In the statement of cash flows, this amount has been presented in investing activities, net of cash held by the acquired company as at the acquisition date, i.e. after deducting EUR 368 thousand (PLN 1,589 thousand).

On 28 April, 5 July and 25 November 2016, ASEE Serbia acquired additional stakes in Chip Card: 7.49% of shares for EUR 163 thousand, 15.59% of shares for EUR 342 thousand, and 8.13% of shares for EUR 179 thousand, respectively, as a result of which its shareholding in the acquired company increased by 31.21% to the total level of 85.02%. Expenditures for the acquisition of these non-controlling interests amounting in total to EUR 684 thousand (PLN 2,970 thousand) have been disclosed in the statement of cash flows in financing activities.

Chip Card is engaged in processing and authentication of payment transactions.

Acquisition of a 25% stake in E-Mon Montenegro

On 6 October 2016, ASEE Serbia signed an agreement to purchase 25% of shares in the company E-Mon, Montenegro. The transaction value amounted to EUR 650 thousand (PLN 2,841 thousand). Following this acquisition, the shareholding of ASEE Serbia in the acquired company increased from 50% to 75%. The control over that company was obtained in November 2016, after making the payment and official registration of the purchase. The results of E-Mon Montenegro have been fully consolidated in these financial statements since 1 November 2016. Until the date of obtaining control, that company was accounted for using the equity method.

Merger of Uni4Gold with ASEE Serbia

The process of merging Uni4Gold and ASEE Serbia was completed on 27 December 2016. This business combination had no impact on the consolidated financial statements of ASEE Group.

During the period of 12 months ended 31 December 2016, there were no other changes in the organizational structure of either ASEE Group or the Issuer.

Related party transactions

The values of transactions conducted by ASEE Group with Asseco Poland S.A. (a shareholder with significant influence on the Group's operations), with other related parties of Asseco Poland Group, as well as with our associates and joint ventures during the years ended 31 December 2016 and 31 December 2015, as well as outstanding balances of receivables and liabilities arising from such transactions as at 31 December 2016 and 31 December 2015 are presented in the table below:

Related party	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Party having significant influence over the Group:				
2016	75	342	86	51
2015	337	284	47	59
Other related parties:				
2016	514	-	93	-
2015	678	39	155	-
Associates:				
2016	431	-	694	-
2015	969	-	407	-

Asseco Poland S.A., being the higher-level parent company, received dividends from ASEE S.A. in the gross amount of PLN 11,128 thousand, as compared with PLN 10,598 thousand in 2015.

Apart from trade receivables, the above table also discloses receivables from deposits we have paid in under space rental agreements, amounting to PLN 47 thousand as at 31 December 2016 and PLN 47 thousand as at 31 December 2015.

Transactions conducted with or through the Key Management Personnel (members of Management Boards and Supervisory Boards) of ASEE Group companies

The values of transactions conducted by ASEE Group with or through the Key Management Personnel (members of Management Boards and Supervisory Boards) of the Group companies during the years ended 31 December 2016 and 31 December 2015, as well as outstanding balances of receivables and liabilities arising from such transactions as at 31 December 2016 and 31 December 2015 are presented in the table below:

Related party	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Key Management Personnel (members of Management Boards and Supervisory Boards) of ASEE S.A. and the Group companies:				
2016	125	7,321	36	139
2015	43	7,732	4	128

Purchases from and sales to related parties presented in the table above are associated primarily with the rental of space and purchases or sales of hardware and services that were conducted by companies of ASEE Group with parties related through the Key Management Personnel or with the Key Management Personnel themselves.

The above table does not include the remuneration received for performing managerial or supervisory functions in subsidiaries that are presented in explanatory note 32 to these financial statements.

The figures disclosed in the table above include the following transactions concluded with or through the Key Management Personnel (members of the Management Board and Supervisory Board) of ASEE S.A.:

During the year ended 31 December 2016, ASEE Serbia incurred space rental costs that were paid to its related parties MHM d.o.o., Beograd[1], DM3 d.o.o., Beograd[1] and MiniInvest d.o.o., Beograd[2], amounting in total to PLN 4,566 thousand, as compared with PLN 4,804 thousand incurred in the year ended 31 December 2015.

During the year ended 31 December 2016, ASEE Macedonia incurred space rental costs that were paid to its related party MPS d.o.o., Skopje[3], amounting in total to PLN 657 thousand, as compared with PLN 611 thousand incurred in the year ended 31 December 2015.

All the above-mentioned transactions were carried out on an arm's length basis.

Members of the Management Board and parties related through members of the Management Board and Supervisory Board of Asseco South Eastern Europe S.A. received dividends from ASEE S.A. in the total gross amount of PLN 2,050 thousand, as compared with PLN 2,029 thousand distributed in

[1] Mihail Petreski, serving as Member of the Supervisory Board of ASEE S.A. till 31 December 2016, is a shareholder in Liatris d.o.o. As at 31 December 2016, Liatris d o.o. held a 2.23% stake in ASEE S.A. (as at 31 December 2015: 6.48%). Mihail Petreski and Liatris d.o.o. hold 40% of shares in MHM d.o.o. as well as 50% of shares in DM3 d.o.o. Furthermore, President of the Management Board of ASEE S.A. holds indirectly a 15% stake in MHM d.o.o. through his wholly-owned Kompania Petyhorska d.o.o. Whereas, 20% of shares in MHM d.o.o. are held by I4 Invention d.o.o. which is also a shareholder in ASEE S.A. 100% of shares in I4 Invention d.o.o. are owned by Miodrag Mirčetić, President of the Management Board of Asseco SEE d.o.o., Beograd and Member of the Management Board of ASEE S.A.;

[2] Miljan Mališ, Member of the Management Board of ASEE S.A. is a shareholder in the company Mini Invest d.o.o. which used to be a shareholder in ASEE S.A. As at 17 February 2017, Mini Invest d.o.o. is no longer a shareholder in ASEE S.A.

[3] Mihail Petreski, serving as Member of the Supervisory Board of ASEE S.A. till 31 December 2016, is the sole shareholder in MPS d.o.o., Skopje.

All figures in thousands of PLN, unless stated otherwise 44

2015. The above-stated amounts do not include dividends payable to Asseco Poland S.A.[4]. The dividend was paid out on 15 July 2016.

Until the date of approval of these consolidated financial statements, ASEE S.A. has not received any information on any related party transactions conducted during the reporting period which would be carried out other than on an arm's length basis.

31. Employment

Group's workforce as at	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Management Board of the Parent Company	4	4
Management Boards of the Group companies	25	23
Production departments	1,145	1,078
Sales departments	123	145
Administration departments	183	170
	1,480	**1,420**

[1] Piotr Jeleński and Marcin Rulnicki serve in the Management Board of ASEE S.A. on the basis of employment contracts. The remaining members of the Company's Management Board perform their duties within ASEE S.A. by assignment.

Numbers of employees in the Group companies as at	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
ASEE S.A.	24	27
ASEE Romania	186	160
ASEE Serbia Group	510	476
ASEE Croatia	241	242
ASEE Kosovo	59	60
ASEE Turkey	178	190
ASEE Bulgaria	20	19
ASEE B&H	59	45
ASEE Macedonia	148	147
ASEE Slovenia	36	35
ASEE Montenegro	10	9
NestPay	9	10
	1,480	**1,420**

32. Remuneration of Members of the Management Board and Supervisory Board of the Parent Company and its subsidiaries

The table below presents the amounts of remuneration paid to Members of the Company's Management Board and Supervisory Board for performing their duties during the years 2016 and 2015:

Fixed remuneration for the period of	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Management Board		
Piotr Jeleński	365	365
Miljan Mališ	168	153
Miodrag Mirčetić	224	212
Marcin Rulnicki	280	281
	1,037	**1,011**
Supervisory Board		
Adam Góral	-	-
Jacek Duch	-	-
Jan Dauman	-	-
Artur Kucharski[1)]	64	n/a
Andrzej Mauberg[2)]	-	-
Mihail Petreski[3)]	-	-
Przemysław Sęczkowski	-	-
Gabriela Żukowicz	-	-
	64	**-**

Variable remuneration for the period of	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Management Board		
Piotr Jeleński	1,587	1,600
Miljan Mališ	678	587
Miodrag Mirčetić	732	837
Marcin Rulnicki	352	349
	3,349	**3,373**
Supervisory Board		
Adam Góral	-	-
Jacek Duch	-	-
Jan Dauman	-	-
Artur Kucharski[1)]	-	n/a
Andrzej Mauberg[2)]	-	-
Mihail Petreski[3)]	-	-
Przemysław Sęczkowski	-	-
Gabriela Żukowicz	-	-
	-	**-**

[1)] Mr. Artur Kucharski was appointed as Member of the Supervisory Board on 31 March 2016. The above table presents his remuneration for the period of service.
[2)] Mr. Andrzej Mauberg resigned from the position of Member of the Supervisory Board with effect from 26 February 2016.
[3)] Mr. Mihail Petreski resigned from the position of Member of the Supervisory Board with effect from 31 December 2016. Mr. Mihail Petreski received remuneration in the amount of PLN 96 thousand from ASEE Serbia (in 2015, PLN 186 thousand from ASEE Serbia and ASEE Macedonia) for the provision of advisory services, which has been disclosed in the item Transactions conducted with or through the Key Management Personnel (members of Management Boards and Supervisory Boards) of ASEE Group companies.

[4] Adam Góral, President of the Management Board of Asseco Poland S.A. serving as Chairman of the Supervisory Board of ASEE S.A., and Jacek Duch, Chairman of the Supervisory Board of Asseco Poland S.A. serving as Member of the Supervisory Board of ASEE S.A., are both shareholders in Asseco Poland S.A. which in turn is a shareholder in ASEE S.A. As at 31 December 2016, Asseco Poland S.A. held 28,716,032 shares in ASEE S.A.

All figures in thousands of PLN, unless stated otherwise

The amounts of remuneration disclosed in the above tables are payable for performing managerial and supervisory functions in ASEE S.A. as well as in its subsidiary companies.

Total remunerations paid or payable to members of the Management Boards and Supervisory Boards of ASEE Group subsidiaries in the year ended 31 December 2016 amounted to PLN 13,608 thousand (excluding the amounts stated in the tables above).

Total remunerations paid or payable to members of the Management Boards and Supervisory Boards of ASEE Group subsidiaries in the year ended 31 December 2015 amounted to PLN 11,071 thousand (excluding the amounts stated in the tables above).

33. Remuneration of certified auditors or the entity authorized to audit financial statements

The table below discloses the amounts of remuneration paid or payable to the entity authorized to audit financial statements, namely Ernst & Young Audyt Polska Sp. z o.o. (limited partnership), for the years ended 31 December 2016 and 31 December 2015:

Remuneration for the period of	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Obligatory audit of the annual financial statements and review of semi-annual financial statements	204	203

34. Capital management

The primary objective of the Group's capital management is to maintain a favourable credit rating and a safe level of capital ratios in order to support the Group's business operations and maximize shareholder value.

The Group manages its capital structure and makes necessary adjustments in response to the changing economic conditions. In order to maintain or adjust its capital structure, the Group may recommend the amount of dividend payment, return some capital to its shareholders, or issue new shares. ASEE Group may also decide to use bank loans or trade credits for financing of its operations.

Over the last two years, the largest change in our capital structure was the increase of bank loan liabilities resulting from our investments in POS terminals and ATMs, which are provided to our clients in the outsourcing model within the operations of the Payment Solutions segment. The Group takes bank loans for this purpose always in the currency in which a given outsourcing contract has been signed, and for a period not exceeding the term of such contract. Our future investments of a similar nature will be financed in the same way, which may lead to a further increase in the net amount of debt.

Apart from the above-mentioned change, during the years ended 31 December 2016 and 31 December 2015, the Group did not introduce any significant changes to its objectives, policies and processes adopted in the area of capital management.

Capital management	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Interest-bearing bank loans and borrowings	44,596	45,329
Trade payables and other liabilities	125,738	82,416
Minus cash and cash equivalents (-)	(119,546)	(101,075)
Net debt	**50,788**	**26,670**
Equity	732,411	688,275
Equity and net debt	**783,199**	**714,945**
Leverage ratio	**6.48%**	**3.73%**

35. Objectives and principles of financial risk management

Asseco South Eastern Europe Group is exposed to a number of risks arising either from the macroeconomic situation of the countries where the Group companies operate as well as from microeconomic situation in individual companies. The main external factors that may have an adverse impact on the Group's financial performance are: (i) fluctuations in foreign currency exchange rates versus the Polish zloty, and (ii) changes in official interest rates. The financial results are also indirectly affected by the pace of GDP growth, value of public orders for IT solutions, level of capital expenditures made by enterprises, and the inflation rate. Whereas, the internal factors with potential negative bearing on the Group's performance are: (i) risk related to the increasing cost of work, (ii) risk arising from underestimation of the project costs when entering into contracts, and (iii) risk of concluding a contract with a dishonest customer.

All figures in thousands of PLN, unless stated otherwise

Foreign currency risk

The currency used for presentation of the Group's financial results is the Polish zloty (PLN); whereas, the functional currencies of foreign subsidiaries of the Group are currencies of the countries where these entities are legally registered in. Consequently, assets and financial results of such subsidiaries need to be converted to Polish zlotys and their values presented in the Group's financial statements remain under the influence of foreign currency exchange rates. In addition, our subsidiaries just as the Parent Company are directly exposed to the risk of changes in foreign exchange rates as they hold loans and other liabilities as well as receivables, cash and other assets denominated in currencies other than the functional currencies of their countries.

Interest rate risk

Changes in the market interest rates may have a negative influence on the financial results of the Group. The Group's exposure to the above-mentioned risk may result in changes of the amounts of interest charged to the Group companies on third-party borrowings which are based on variable interest rates.

The interest rate risk arises and is recognized by individual companies of the Group at the time of concluding a transaction or a financial instrument based on a variable interest rate. All such agreements are subject to analysis by appropriate departments within the Group companies, hence the knowledge of that issue is complete and acquired directly.

The Group companies measure their exposure to the interest rate risk by preparing the statements of total amounts of all of their financial instruments based on a variable interest rate. Additionally, the Group companies maintain records of debt planned to be incurred during the next 12 months, and in the case of long-term instruments – for the period of their maturity. The objective of reducing such risk is to minimize expenses arising from the concluded financial instruments based on a variable interest rate.

The Group companies may conclude forward rate agreements in order to mitigate the risk of interest rate changes.

The Group gathers and analyzes the current market information concerning its present exposure to the interest rate risk. At present the Group companies do not apply any interest rate hedges.

Credit risk

The Group has an adequate policy in place that allows for selling products to reliable clients only. Due to the continuing monitoring of amounts receivable as well as the Group's policy for writing-down past-due receivables, our credit sales risk cannot exceed the level covered by allowances for doubtful receivables. The Group's policy for the creation of allowances for receivables is described in section XV of the "Significant accounting policies" chapter.

Presented below is the ageing analysis of trade receivables as at 31 December 2016 and 31 December 2015.

Ageing of trade receivables	31 Dec. 2016 (audited)		31 Dec. 2015 (audited)	
	amount	structure	amount	structure
Receivables not yet due	100,498	85.5%	59,708	79.4%
Receivables past-due up to 3 months	14,761	12.6%	13,232	17.6%
Receivables past-due over 3 months	2,252	1.9%	2,291	3.0%
	117,511	**100.0%**	**75,231**	**100.0%**

In 2016, the gross amount of receivables past-due over 3 months equalled PLN 5,398 thousand. We recognized an allowance in the amount of PLN 454 thousand for receivables past-due over 6 months, as well as an allowance in the amount of PLN 2,692 thousand for receivables past-due by more than 1 year.

	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Allowances recognized as at 1 January	**2,876**	**3,666**
Created	1,469	1,599
Reversed (-)	(1,045)	(1,687)
Utilized (-)	(106)	(654)
Exchange differences on translation of foreign operations (+/-)	72	(48)
Allowances recognized as at 31 December	**3,266**	**2,876**

Allowances created in 2016 in the total amount of PLN 1,469 thousand are related to receivables written-down according to the Group's accounting policy, and have been recognized primarily by ASEE Serbia, ASEE Turkey, ASEE Bosnia, and ASEE Romania.

Allowances reversed in 2016 amounted to PLN 1,045 thousand and were related primarily to projects implemented by ASEE Macedonia, ASEE Serbia, and ASEE Turkey. These allowances were reversed following the collection of related receivables from customers.

All figures in thousands of PLN, unless stated otherwise

Allowances reversed in 2015 amounted to PLN 1,687 thousand and were related primarily to projects implemented by ASEE Romania and ASEE Macedonia. These allowances were reversed following the collection of related receivables from customers.

In relation to other financial assets, the Group's credit risk results from the contracting party's inability to settle their payments, whereas the maximum exposure to such risk is limited to the carrying value of such assets. There is no particular concentration of credit risk in any segment of the Group's operations.

Financial liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This toll takes into account the maturity deadlines of investments and financial assets (e.g. receivables, financial assets) as well as the anticipated cash flows from operating activities. The Group's objective is to maintain a balance between continuity and flexibility of financing by using various sources of funds.

The tables below present the ageing analysis of the Group's trade payables, as well as liabilities under finance leases, bank loans and derivative instruments as at 31 December 2016 and 31 December 2015, by maturity based on contractual undiscounted payments:

Ageing of trade payables	31 Dec. 2016 (audited)		31 Dec. 2015 (audited)	
	amount	structure	amount	structure
Liabilities due already, of which:	9,975	16.2%	10,446	25.4%
-Liabilities past-due up to 3 months	*7,630*	*12.4%*	*9,047*	*22.0%*
-Liabilities past-due from 3 to 6 months	*244*	*0.4%*	*1,031*	*2.5%*
-Liabilities past-due over 6 months	*2,101*	*3.4%*	*368*	*0.9%*
Liabilities falling due within 3 months	50,652	82.0%	30,740	74.6%
Liabilities falling due within 3 to 12 months	376	0.6%	-	0.0%
Liabilities falling due after 1 year	739	1.2%	-	0.0%
	61,742	**100.0%**	**41,186**	**100.0%**

Ageing of finance lease liabilities	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Liabilities falling due within 1 year	1,023	745
Liabilities falling due within 1 to 5 years	2,042	1,726
Liabilities falling due after 5 years	-	-
	3,065	**2,471**

Ageing of liabilities under bank loans	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Liabilities falling due within 1 year	22,789	20,480
Liabilities falling due within 1 to 5 years	18,646	24,849
Liabilities falling due after 5 years	3,161	-
	44,596	**45,329**

Ageing of liabilities under derivative instruments	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Liabilities falling due within 1 year	240	31
Liabilities falling due within 1 to 5 years	821	394
Liabilities falling due after 5 years	-	-
	1,061	**425**

Analysis of sensitivity – foreign currency risk

As at 31 Dec. 2016 (audited)	Amount exposed to risk	Impact on financial results of the Group (10%)	10%
EUR:			
Trade receivables	17,704	(1,270)	1,270
Loans granted	89	(7)	7
Cash and cash equivalents	26,603	(1,975)	1,975
Bank loans	43,953	4,101	(4,101)
Trade payables	31,265	2,953	(2,953)
Financial liabilities carried at fair value through profit or loss	235	24	(24)
Balance		**3,826**	**(3,826)**
USD:			
Trade receivables	6,645	(665)	665
Cash and cash equivalents	8,080	(808)	808
Trade payables	7,943	794	(794)
Financial liabilities carried at fair value through profit or loss	826	83	(83)
Balance		**(596)**	**596**

The analysis of sensitivity of our trade receivables, cash at foreign currency bank accounts, as well as liabilities under bank loans, trade payables and other financial liabilities, to fluctuations in the exchange rates of the US dollar against the functional currencies of the Group companies, indicates that the Group will incur a potential loss of PLN 596 thousand if the dollar depreciates 10% versus our functional currencies. Whereas, if the euro depreciates 10% versus the functional currencies of the Group companies, the Group will potentially gain PLN 3,826 thousand. Hence, if both the dollar and euro were 10% weaker against the functional currencies of the Group companies, the Group's financial results would improve by a net total of PLN 3,230 thousand. Conversely, if the dollar and euro appreciated by 10% versus those functional currencies, the Group would incur an additional net financial loss of PLN 3,230 thousand.

All figures in thousands of PLN, unless stated otherwise

As at 31 Dec. 2015 (audited)	Amount exposed to risk	Impact on financial results of the Group	
		(10%)	10%
EUR:			
Trade receivables	16,760	(1,140)	1,140
Cash and cash equivalents	20,369	(1,480)	1,480
Bank loans	39,829	3,708	(3,708)
Trade payables	19,231	1,714	(1,714)
Financial liabilities carried at fair value through profit or loss	64	6	(6)
Balance		**2,808**	**(2,808)**
USD:			
Trade receivables	5,906	(591)	591
Cash and cash equivalents	9,527	(953)	953
Trade payables	6,369	637	(637)
Financial liabilities carried at fair value through profit or loss	361	36	(36)
Balance		**(871)**	**871**

The Group has adopted a policy of hedging its open foreign currency positions with forward currency derivatives.

Methods adopted for conducting the sensitivity analysis

The analysis of sensitivity to fluctuations in foreign exchange rates, with potential impact on our financial results, was conducted using the percentage deviations of +/-10% by which the reference exchange rates, effective as at the end of the reporting period, were increased or decreased. The table was prepared on the basis of standalone financial statements of Asseco Group companies, in which specific currency risks were identified from the perspective of an individual company.

Interest rate risk

The Group companies use external sources of financing in the form of bank loans and borrowings, which are appropriated primarily for operating activities (financing of working capital) as well as for the Group's investing activities (purchase/construction of fixed assets, capital investments).

The Group's total liabilities under all bank loans and borrowings aggregated at PLN 44,596 thousand as at 31 December 2016, of which the amount of PLN 43,951 thousand was exposed to the interest rate risk.

The Group does not have a formal strategy for hedging against the interest rate risk.

The interest rate risk involved in other items of financial assets and liabilities is not substantial.

All figures in thousands of PLN, unless stated otherwise 49

36. Financial instruments

Fair value

The book values of financial assets and liabilities held by the Group both as at 31 December 2016 and 31 December 2015 did not significantly differ from their fair values.

	Book value 31 Dec. 2016	Level 1 i)	Level 2 ii)	Level 3 iii)	Book value 31 Dec. 2015	Level 1 i)	Level 2 ii)	Level 3 iii)
Financial assets carried at fair value through profit or loss	**2,996**	**-**	**2,996**	**-**	**2,619**	**-**	**2,619**	**-**
Investment fund units	2,996	-	2,996	-	2,619	-	2,619	-
Financial assets available for sale	**138**	**117**	**-**	**21**	**129**	**109**	**-**	**20**
Shares in companies listed on regulated markets	117	117	-	-	109	109	-	-
Shares in companies not listed on regulated markets	21	-	-	21	20	-	-	20
Financial assets held to maturity	**29**	**-**	**29**	**-**	**93**	**-**	**93**	**-**
Bank deposits (3 to 12 months long)	22		22		17	-	17	-
Deposits for over 12 months	7		7		76	-	76	-
Loans granted	**89**	**-**	**89**	**-**	**49**	**-**	**49**	**-**
Granted to other entities	89	-	89	-	**-**	**-**	**-**	**-**
Granted to employees	-	-	-	-	49	-	49	-

i. fair value determined on the basis of quoted prices offered in active markets for identical assets;
ii. fair value determined using calculation models based on inputs that are, either directly or indirectly, observable in active markets;
iii. fair value determined using calculation models based on inputs that are not, directly or indirectly, observable in active markets.

Items of income, expenses, gains and losses recognized in the income statement, by category of financial instruments

Year ended 31 Dec. 2016 (audited)	Category according to IAS 39	Interest income/ (expenses):	Gain/(loss) on foreign exchange differences	Reversal/ (recognition) of impairment write-downs	Gain/(loss) on revaluation	Other	Total
Financial assets							
Cash deposits	OFLaAC	2	-	-	-	-	**2**
Financial assets carried at fair value	FVtPL	141	-	-	-	-	**141**
Loans granted and receivables	L&R	443	1,411	(550)	-	-	**1,304**
Receivables from dividends and disposed shares		-	512	-	-	-	**512**
Cash and cash equivalents	FVtPL	1,030	2,048	-	-	-	**3,078**
Shares in other companies		-	-	-	-	2,308	**2,308**
Financial liabilities							
Interest-bearing bank loans and borrowings	OFLaAC	(1,112)	(1,439)	-	-	-	**(2,551)**
Other liabilities, of which:		(115)	(1,664)	-	(960)	**-**	**(2,739)**
Finance lease liabilities		*(100)*	-	-	-	-	***(100)***
Liabilities for unpaid shares		-	*(1,455)*	-	-	-	***(1,455)***
Currency forward contracts	*FVtPL*	-	-	-	*(960)*	-	***(960)***
Trade payables	*OFLaAC*	*(15)*	*(209)*	-	-	-	***(224)***
Total		**389**	**868**	**(550)**	**(960)**	**2,308**	**2,055**

Year ended 31 Dec. 2015 (audited)	Category according to IAS 39	Interest income/ (expenses):	Gain/(loss) on foreign exchange differences	Reversal/ (recognition) of impairment write-downs	Gain/(loss) on revaluation	Other	Total
Financial assets							
Cash deposits	OFLaAC	179	-	-	-	-	**179**
Financial assets carried at fair value	FVtPL	103	-	-	-	-	**103**
Loans granted and receivables	L&R	-	1,201	19	-	-	**1,220**
Receivables from dividends and disposed shares		-	912	-	-	-	**912**
Cash and cash equivalents	FVtPL	1,203	1,274	-	-	-	**2,477**
Financial liabilities							
Interest-bearing bank loans and borrowings	OFLaAC	(1,303)	(2,038)	-	-	-	**(3,341)**
Other liabilities, of which:		(90)	(988)	-	(374)	133	**(1,319)**
Finance lease liabilities		*(90)*	-	-	-	-	***(90)***
Liabilities for unpaid shares		-	*31*	-	-	*133*	***164***
Currency forward contracts	*FVtPL*	-	*64*	-	*(374)*	-	***(310)***
Trade payables	*OFLaAC*	-	*(1,083)*	-	-	-	***(1,083)***
Total		**92**	**361**	**19**	**(374)**	**133**	**231**

All figures in thousands of PLN, unless stated otherwise

37. Significant events after the reporting period

In the period from 31 December 2016 till the date of approval of these consolidated financial statements, this is until 17 February 2017, we have not observed any other significant events, the disclosure of which might significantly affect the assessment of human resources, assets and financial position of ASEE Group.

38. Significant events related to prior years

Until the date of preparing these consolidated financial statements, this is until 17 February 2017, we have not observed any significant events related to prior years, which have not but should have been included in our accounting books.