

Solutions
for demanding
business.



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

Rzeszów, 17 February 2017



PRESIDENT'S LETTER
ASSECO SOUTH EASTERN EUROPE S.A.

Rzeszów, 17 February 2017

Dear Shareholders,

2016 was a successful year for Asseco South Eastern Europe Group. In comparison with the prior year, our sales revenues increased by more than 17%. Operating profit reached PLN 57 million, reflecting a 7% improvement year on year. Such favourable results were achieved by consistent investing in development, boosting sales of own products, expanding the portfolio of software solutions offered, as well as by gaining contracts in new markets and business areas of ASEE.

Enhancing the portfolio of own products

Last year we expanded the portfolio of proprietary products in the Payment Solutions segment. Owing to the acquisition of Chip Card company, the offering of ASEE has been enriched with the processing of payment card transactions. We managed to sign first deals in this area, including with Delhaize, a leading retail network in Serbia, as well as with several banks. We also obtained a business license for Paratika, a solution for electronic payments made on the Internet which is offered directly to website owners. These accomplishments enable us to satisfy our customers' payment needs in a more comprehensive way.

The financial sector has recently been undergoing a dynamic development. This is also observed in the area of payment services which are characterized by high levels of innovation, penetration into the offering of other sectors, consolidation, as well as strong competition. Considering all of these factors, in 2016 we decided to spin off our Payment Solutions segment into a separate entity operating within the structure of ASEE Group. I am convinced this will help us accelerate our business growth by further focusing on operations of our individual segments, and by allowing for greater comparability with other players active in this market. This will also enhance the attractiveness of our company for partners who may wish to join the group of Asseco payment solutions, and are not necessarily interested in working together with a versatile IT industry player. In addition, I expect this will speed up the expansion of our new company into markets outside the SEE region, and increase its comparability with other firms in the payments industry.

Innovations, expansion into new markets

Asseco SEE's innovative solutions received much recognition during the last year. Our mobile banking application implemented for CIB Bank's retail customers, developed within the DigiCal project of Intesa Sanpaolo Group, won the first prize at the MasterCard Europe Bank Competition in Hungary. Moreover, our electronic payment gateway NestPay® has been highly appreciated by Türk Ekonomi Bank, one of the Turkish market leaders. Another innovative success of ASEE was the implementation of a remote digital signature (RDS) solution for Zagrebačka Banka in Croatia. Furthermore, in partnership with Euronovate we implemented the first paperless branch project at UniCredit bank in Serbia. Our Digital Edge omnichannel solution, which supports digital transformation at

banks, has gained recognition from Eurobanka, one of the largest banks in Serbia, as a result of which the bank's services will become more user-friendly and tailored to the customer needs and lifestyle.

We persistently implemented the strategy of expansion into new markets located outside the SEE region. At the beginning of 2016, we strengthened our presence in Egypt by signing a contract to provide our proprietary LeaseFlex solution to Global Leasing Company.

Directions of development

In 2017, we will continue to expand our business into new markets – we intend to win customers in North Africa and the Middle East, as well as in those countries of Europe where we have already managed to sign first contracts, such as Italy. We will continue our efforts to enable economic and organizational independence of each of the operating segments of ASEE Group. In the Payment Solutions segment, we plan to reinforce our business lines engaged in processing and authentication of payment transactions, as well as the line related to mobile payments, including HCE technology. While in the Banking Solutions segment, leveraging on our long-term experience in supporting transformation processes in the banking industry, we will strive to strengthen our already significant position in this sector by further increasing the share of own products and services in the revenue structure of ASEE Group. This will be achieved by boosting sales of innovative solutions, especially in the omnichannel domain – Digital Edge and Digital Origination. In the Systems Integration segment, we will put emphasis on the expansion of our own software solutions into new markets, as well as on increasing the share of solutions developed to individual orders from large customers, mainly in the public administration sector.

I believe 2017 is going to be an extremely exciting year for us. On this occasion, I would also like to thank our shareholders, clients, business partners as well as employees for all the success we achieved in 2016.

Piotr Jeleński

CEO, Group President

Solutions
for demanding
business.



**MANAGEMENT REPORT ON OPERATIONS
OF ASSECO SOUTH EASTERN EUROPE GROUP
FOR THE YEAR ENDED
31 DECEMBER 2016**

Rzeszów, 17 February 2017

**MANAGEMENT REPORT ON OPERATIONS
OF ASSECO SOUTH EASTERN EUROPE GROUP
FOR THE YEAR ENDED 31 DECEMBER 2016**

Table of contents

Page

1. GENERAL INFORMATION ON THE ISSUER	6
2. BUSINESS PROFILE OF THE ISSUER AND ITS CAPITAL GROUP	6
3. COMPOSITION OF THE ISSUER'S MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES	6
4. ORGANIZATIONAL STRUCTURE OF ASSECO SOUTH EASTERN EUROPE GROUP	7
5. EFFECTS OF CHANGES IN THE ORGANIZATIONAL STRUCTURE	7
6. GROUP'S DEVELOPMENT POLICY	8
7. KEY PRODUCTS, GOODS FOR RESALE, AND SERVICES	11
8. SELLING MARKETS	15
9. SIGNIFICANT AGREEMENTS CONCLUDED BY THE GROUP	16
10. INFORMATION ON GEOGRAPHICAL STRUCTURE OF FINANCIAL RESULTS	19
11. KEY ECONOMIC AND FINANCIAL FIGURES AND SIGNIFICANT EVENTS WITH IMPACT ON BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE	20
12. EXTERNAL AND INTERNAL FACTORS SIGNIFICANT FOR THE GROUP'S DEVELOPMENT	26
13. SIGNIFICANT RISK FACTORS AND THREATS	27
14. KEY FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS	31
15. MAJOR CAPITAL INVESTMENTS	31
16. ORGANIZATIONAL AND EQUITY RELATIONSHIPS OF THE ISSUER	31
17. RELATED PARTY TRANSACTIONS	32
18. ASSESSMENT OF THE FINANCIAL RESOURCES MANAGEMENT	32
19. AGREEMENTS FOR BANK LOANS AND BORROWINGS	32
20. LOANS GRANTED DURING THE FINANCIAL YEAR	32
21. SURETIES AND GUARANTIES	33
22. UTILIZATION OF PROCEEDS FROM ISSUANCE OF SHARES	33
23. EXPLANATION OF DIFFERENCES BETWEEN THE FINANCIAL RESULTS DISCLOSED IN THE ANNUAL REPORT AND PREVIOUS FINANCIAL FORECASTS FOR THE YEAR	33
24. FEASIBILITY OF INVESTMENT PLANS	33
25. CHANGES IN THE POLICIES OF COMPANY AND GROUP MANAGEMENT	33
26. AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND ITS MANAGEMENT AND SUPERVISORY PERSONNEL	33
27. MONITORING OF EMPLOYEE STOCK OPTION PLANS	33
28. REMUNERATION DUE TO THE ISSUER'S MANAGEMENT AND SUPERVISORY PERSONNEL	33
29. SHAREHOLDERS STRUCTURE	34
30. SHARES HELD BY MANAGEMENT AND SUPERVISORY PERSONNEL	34
31. AGREEMENTS WHICH MAY RESULT IN CHANGES OF THE EQUITY INTERESTS HELD	35
32. AGREEMENT WITH THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS	35
33. REMUNERATION PAID OR PAYABLE TO THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS	35
34. SIGNIFICANT OFF-BALANCE-SHEET ITEMS	35
35. INFORMATION ON PENDING LEGAL PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF ASSECO SOUTH EASTERN EUROPE S.A. OR ITS SUBSIDIARIES	35
36. INFORMATION ON THE ISSUER	36
DECLARATIONS MADE BY THE MANAGEMENT BOARD OF ASEE S.A.	38

1. GENERAL INFORMATION ON THE ISSUER

Asseco South Eastern Europe Group (the "Group", "ASEE Group", "ASEE") is comprised of Asseco South Eastern Europe S.A. (the "Parent Company", "Company", "Issuer", "ASEE S.A.") and its subsidiaries.

The Parent Company Asseco South Eastern Europe S.A. seated at 14 Olchowa St., Rzeszów, Poland, was established on 10 April 2007.

The Company has been listed on the main market of the Warsaw Stock Exchange since 28 October 2009.

2. BUSINESS PROFILE OF THE ISSUER AND ITS CAPITAL GROUP

Asseco South Eastern Europe S.A. is engaged in holding operations which involve primarily management of IT companies that belong to ASEE Group in South Eastern Europe and Turkey, as well as investments in new IT sector companies in that region. ASEE S.A. is also a provider of services and software for voice automation solutions, payment systems and mobile communication systems.

ASEE 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.

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

- Banking Solutions,
- Payment Solutions,
- Systems Integration.

These reportable segments correspond to the Group's operating segments.

The Banking Solutions segment portfolio 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.

The Payment Solutions segment provides complete payment industry solutions, for financial and non-financial institutions, supporting card and card-less transactions. ASEE's offering includes solutions for e-Commerce (NestPay®, MSU), mobile payments (mPOS, HCE), payment card processing, as well as ATM and POS related services. The Group delivers software and services, including equipment and outsourcing of ATMs and POS terminals, providing the highest level of expertise, maintenance and support throughout the entire portfolio.

The Systems Integration segment 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. This 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.

3. COMPOSITION OF THE ISSUER'S MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

As at the date of publication of this report, this is 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.

In the period from 31 December 2016 till the publication of this report, this is till 17 February 2017, the compositions of the Company's Management Board, Supervisory Board and Audit Committee remained unchanged.

4. ORGANIZATIONAL STRUCTURE OF ASSECO SOUTH EASTERN EUROPE GROUP

The table below presents the structure of ASEE Group along with equity interests and voting rights at the general meetings of shareholders/partners of its subsidiaries 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%

As at 31 December 2016, Asseco Poland S.A., being the higher-level parent company, held a 55.34% stake in the share capital of ASEE S.A.

Within the 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.

5. EFFECTS OF CHANGES IN THE ORGANIZATIONAL STRUCTURE

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.

6. GROUP'S DEVELOPMENT POLICY

In 2017, the Group intends to focus on:

- Continuing efforts to enable economic and organizational independence of each of the operating segments of ASEE Group;
- Separation of an independent organizational entity within ASEE Group to which all the operations of the Payment Solutions segment shall be transferred;
- Enriching and reinforcing the portfolio of the Payment Solutions segment with new services and products as a result of organic growth and acquisitions;

- Further increasing the share of our own products and services in the structure of ASEE Group revenues;
- Boosting sales by entering into new markets, understood as new geographical locations as well as offering of our products in new business areas in the existing territory of ASEE's operations;
- Improving the efficiency of our operations through better project management and greater utilization of available resources.

Turning a Holding of loosely related companies into a Corporation

ASEE Group was created through the acquisition and integration of IT companies operating in the markets of South-Eastern Europe and Turkey.

We have made efforts aimed at deepening the integration of the acquired business operations, as a result of which ASEE has evolved from a loose federation of companies into a coherent corporate structure with multidimensional management related to:

1. Geographical location
2. Products/competence
3. Functions (sales, R&D, operations, HR, marketing, finance)

The Geographical management is based on our local organizational structures.

The Competence management is based on our key business segments:

- Payment Solutions
- Banking Solutions
- Systems Integration (including the sale of proprietary solutions and services as well as third-party solutions)

Both the Competence and Function-related management along with relevant standard procedures are centralized and cover all geographical locations of our operations.

Sales-oriented organization

For several years already, the main task of ASEE's sales force has been to expand our business in new markets as well as to provide greater support for the most promising products and solutions.

We continue to invest in resources that are necessary to serve international clients, who are present in the region of South Eastern Europe and their organizational structures are centralized.

We have taken a big challenge to engage selected persons from other departments, such as business line managers and product managers, into the sales and sales support processes. This is being accomplished gradually, including through

professional training and implementation of additional processes to encourage cooperation within the Group.

Improving the efficiency of Operations

One of the key elements in introducing the functional dimension of management in the Group is to unify the standards adopted in managing our projects and implementation resources.

As part of this process, we have introduced new tools and unified the existing methods applied for project management as well as for measuring the efficiency of our resources. In cooperation with the Sales team and heads of our product segments, we managed to verify our product development expenditures which helped rationalize the Group's budget more towards the development of strategically important products.

The upcoming period will be crucial for further implementation of standard procedures in this area as well as for setting goals based on selected indicators of operational efficiency. Our ultimate objective is to eliminate unprofitable projects and increase the profitability of own services.

Focusing on strategic products and services

In the process of further development of ASEE, the Management intends to focus on continuing expansion and enhancement of the portfolio of our own products and services. Therefore, it may be necessary to concentrate more on the Group's key competencies, and as a result we may need to resign from offering certain solutions, which are not strategically important for ASEE.

The Management intends to carry on building a comprehensive and consistent portfolio of IT solutions in each of the Group's operating segments, including though the use of software that is not currently marketed by ASEE.

In a longer term, the Group plans to go global with several of its key software solutions, in the areas where ASEE's know-how and expertise allow us to compete with the major vendors in the market.

Irrespective of the planned concentration on our key products, the Management intends to leverage on ASEE's strong position in the region, expertise and good customer relations in order to build the competence of professional advisors and service providers for important clients of the Group.

Strategic directions of development

By focusing on the development of strategic products, the Group will be able to achieve higher revenue growth and boost the sales of its proprietary solutions. This is one of the strategic objectives pursued by the Group and the signs of improvement in this area have been observed for a few years already.

In 2016, we managed to maintain a high share of proprietary solutions in the Group's revenue structure. Sales of our own software and services exceeded PLN 347 million, reflecting an increase by 17% in relation to the year 2015. Revenues from proprietary solutions accounted for 61% of the Group's total sales. We expect that during 2017 the value of revenues from proprietary solutions will continue to grow.

In the Management's opinion, in order to achieve higher growth in sales of proprietary solutions, ASEE Group will need to generate more revenues in markets outside the current area of its business operations. In the long run, our Company plans to expand its sales beyond South Eastern Europe and Turkey, in particular by creating a network of partners to collaborate with ASEE. In the years 2015-2016, the Group was engaged in the execution of significant projects, among others, in Italy, Morocco, Egypt as well as in Saudi Arabia. The Management Board intends to continue our sales activities outside the markets of South Eastern Europe and Turkey also in 2017. The Italian market is still perceived as particularly attractive.

From among the markets in which the Group is currently present, the largest potential for growth is seen in Turkey and Romania, and that is where ASEE should develop more dynamically in the coming years. However, the recent turmoil in Turkey may slow down the pace of growth in that market over a short term. The Group will also strive to strengthen its position in Slovenia and Bulgaria.

The strategic goal of ASEE is to become one of the three largest and most recognizable players in each of the markets where the Group conducts its business.

Plans for individual operating segments

In the **Banking Solutions** segment, the nearest plans assume primarily selective investments in the development of chosen products, further recovery of our position in the banking sector in Romania, as well as continued growth of this segment in Bosnia and Herzegovina, Slovenia, and Bulgaria.

After a thorough reorganization of our Romanian team over the recent years, the second half of 2016 brought an improvement in the segment's financial performance. The Management of ASEE believes that this is a durable trend and the Romanian segment will deliver stronger results also in 2017 and in subsequent years. From among countries where we just started to develop our banking sector competence, Slovenia and Bulgaria seem to be the most promising. In the market of Bulgaria, ASEE Group has recently managed to gain several new references for the implementation of IT systems at Bulgarian branches of international banking groups.

The largest operation of the Banking Solutions segment is located in Serbia. That is also where we work most intensively on the development of new products, including primarily omnichannel banking solutions (Digital Edge), about which ASEE is often inquired by clients in the region. The development plans of ASEE Group also include investments in sales support solutions (Digital Origination), mobile solutions and authentication security systems developed in Croatia, as well as financial fraud prevention system constructed in Turkey.

Regardless of the country of origin, each of the IT solutions offered by ASEE is available across the whole region. Mobile banking solutions, authentication systems or fraud prevention software can be offered separately, but also as complementary products for larger projects, such as core banking systems or multi-channel banking solutions (Digital Edge). In countries outside the region of ASEE's operations, this segment is seeking local business partners in order to offer our software solutions through their distribution networks.

Another factor that may affect the segment's results in 2017 is the plan to increase its operational efficiency. The above-mentioned initiatives, aiming at high-quality project management and effective use of resources, should contribute to achieving higher margins of profit across the entire operating segment.

The **Payment Solutions** segment is considered by the Management as the most mature and uniform among all business lines currently operating within ASEE. Therefore, in 2016 we decided to formally separate this segment into an independent organizational entity. In practice, this means that following such reorganization the segment will continue to operate as part of ASEE Group, but in a formally separated organizational unit. This will further enhance the segment's independence from our other business lines. Resources of the Payment Solutions segment are scheduled to be transferred to such separate organizational entity during the year 2017.

Apart from the segment's formal separation in the organizational structure of ASEE, the strategic plans of this business line include expanding the segment's portfolio with new products and services in order to enable comprehensive processing of both physical and virtual payments. Our offering will be enriched through organic growth or by way of potential acquisition of companies with desirable business profiles.

Apart from the three major product lines: virtual payments, POS related services and ATM related services, we plan to reinforce our business lines engaged in processing and authentication of payment

transactions, as well as the line related to mobile payments, including HCE technology.

In order to achieve the above-mentioned goal, during 2016 ASEE took over Chip Card company which is a provider of services in the field of processing and authentication of payment transactions. Still in 2016, ASEE signed first deals with new customers, benefiting from the infrastructure and experience of Chip Card. The Management anticipates this business line to generate higher sales in the coming years. Whereas as part of our organic development of payment solutions, in 2016 we continued the project of Paratika, a service for the settlement of payment transactions made on the Internet which is offered directly to website owners. In August 2016, a Turkish subsidiary of ASEE obtained a license to carry out such activities. The Group's Management believes the Paratika project is going to generate first considerable revenues already in 2017.

All the solutions offered by this segment are currently divided into four business lines: maintenance of POS terminals and ATMs, e-Commerce support solutions, processing of payment transactions, and mobile payments.

Most of the segment's revenues are still generated from services related to the maintenance of POS terminals and ATMs. In this business, our most important markets are Serbia, Croatia, Bosnia and Herzegovina, Macedonia, Slovenia, and Montenegro. Apart from that, ASEE is consistently building its market share in Romania, Albania and Kosovo, and strives to reinforce its position in Bulgaria. The division of physical payments handling is consistently expanding its business model to cover both the traditional supply and maintenance of equipment, and the complete outsourcing of payment processes. These actions translate into greater security and predictability of our business, as well as give ASEE Group a competitive advantage over local firms. The physical payments handling division goes on testing new products and solutions in an effort to add more value to its services.

The division of online payment systems focuses on offering the Turkish NestPay® solution, hence Turkey is still the largest market for these products. We adopted a strategy to provide our online payment gateways in the outsourcing model. Hence, our sales revenues depend on the number of retailers who are supported by banks, acting as the clients of ASEE, as well as the volume of generated transactions. According to the Management's estimates, the number of merchants supported through banks will grow less dynamically. In response to this trend, the Management has elaborated a service of online

payment settlements that is offered directly to retailers and marketed under the brand of Paratika.

Processing of payment transactions and mobile payments do not currently have a significant share in the segment's sales structure. It is the Management's objective to increase such revenues in 2017 and in subsequent years by systematically expanding our offer of solutions that can support payment processes.

Development of the **Systems Integration** segment will primarily involve strengthening the presence of our proprietary solutions on individual markets of the region. Currently, the Systems Integration segment promotes its proprietary solutions with high

revenue potential, which are ready for distribution in the whole region of ASEE operations, also outside the country of product origination. The Group is also planning to increase its market share in IT solutions developed for individual large customers, mainly in the public administration sector, leveraging on experience gained in this field in Macedonia and Serbia. ASEE continues to develop its competence in the implementation of projects co-financed by the European Union, both in the area of accession programs and structural funds.

7. KEY PRODUCTS, GOODS FOR RESALE, AND SERVICES

BANKING BUSINESS UNIT

Asseco SEE's offer within banking software ranges from omni-channel solution designed to distribute banking services over new, alternative distribution channels and improve business relation 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 systems. We also offer our clients on-line 24x7 services and consultancy in the area of digital banking and digital transformation.

Omni-channel sales and services

Digital Edge

Digital Edge 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. Thanks to Digital Edge a bank can increase engagement and loyalty of its existing customer base and acquire new customers in a cost effective way. Digital Edge solution contains a **Digital Edge Hub** and a set of Online Channels. As Online Channels we can have: **Digital Edge Mobile/Table**, **Digital Edge Web**, ATM, Facebook, as well as Branch.

Experience Frontline

Experience Frontline (Experience Branch, Experience Customer Insight, Experience Loan Origination) is a software package supporting bank's sales and servicing operations on assisted channels, such as bank's branch network, external agencies and call center. The platform is characterized by rich UI, 3-tier architecture, strong and flexible input validations, high security standards, multi-language support, context-sensitivity, common workplace functionality, and a wide range of integration options. Products are developed using model-driven approach, on top of customized IBM IFW models which represent world's leading practice in banking domain.

Product Delivery

Product Delivery System is an ideal solution for agents who want to offer their clients retail credit without making a visit to the bank. It is a web based application which allows the clients to communicate with a bank from their stores and offices. The process of approval and credit request completion, compared with the existing fax communication procedure, is much faster, simpler and more efficient with Product Delivery.

Experience Customer Analytics

Experience Customer Analytics, with a set of analysis and predictive models, aims to help banks gain new clients, retain current customers and maximize their profitability with well-timed actions and offers that improve customers' loyalty and their relation with the bank.

PFM

PFM (Personal Finance Management) is an advanced online personal finance management solution that enables bank's online banking clients to manage their finances by keeping track and making analysis about personal incomes, through automatic categorization of all transactions, by making plans about spending and incomes and through receiving financial help and recommendations.

Banking Operations

The Banking business unit of ASEE offers three different core banking systems. Two of them are based on the Oracle platform (**Absolut** and **Bapo**), and one on the Microsoft platform (**Pub2000**).

On Oracle platform:

- **Absolut**
- **Bapo**

Absolut is a suite of applications designed to support finance and banking operations. The system consists of the core module and several additional modules, such as Internet banking, management information system, cards management system, insurance management system. It also includes the **Absolut Leasing** application which effectively supports operations of leasing companies.

Bapo is an integrated core banking system offering numerous front-end functions, optimized for retail and commercial banks conducting operations in Southern and Eastern Europe.

On Microsoft platform:

- **Pub2000**

Pub2000 is an integrated application for retail and corporate banking. Owing to its integrated Product Factory function it is quite a unique product on the market, which enables our clients to generate new banking products and services, and to define or modify process workflows without altering the application.

Apart from core banking solutions within banking operations ASSE offers **Experience Treasury** and **Experience Collateral Management** solutions.

Experience Treasury

Experience Treasury is an advanced front, middle and back office solution designed to meet the complete needs of treasury operations in a modern environment. It helps to increase the overall profitability with simultaneously accurate risk anticipation and planning and in accordance with the domestic and international regulations.

Experience Collateral Management

The main purpose of **Experience Collateral Management** solution is to provide a reliable registration and allocation of all types of collaterals used to cover exposure in order to control and mitigate credit risk. Furthermore, the application enables revaluation of collateral asset fair value, enhanced workflow and task mechanism, automatic alerts and detailed reporting package, as well as allocation by various methodologies and distribution algorithms.

Risk and Compliance

Tezauri

Tezauri™ is an integrated Business Intelligence solution for banks, which enables risk management, credit assessment through an integrated scoring system and profitability analysis, monitoring of regulatory compliance as well as implementation of related solutions.

Experience Scoring

Experience Scoring solution helps banks automate important operational decisions with predictive models. With simple yet powerful environment, easy access to data and built-in best practices, the solution enables holistic management of predictive models starting from development, ongoing validation and monitoring all the way to model revision and retirement.

Experience Funds Transfer Pricing

Experience™ Funds Transfer Pricing enables banks and other financial institutions to better understand the business performance at all levels and take advantage of all opportunities and ultimately improve profitability. Experience FTP is specially tailored to answer South Eastern Europe markets' needs. Flexible funding models, integration with Tezauri BDW or any third party data source and detailed reports based on customizable profitability dimensions provide effective and robust FTP solution for any financial institutions on the market.

AML

AML (Anti-Money Laundering) solution is an integrated solution for detection & prevention of Money Laundering. It enables monitoring and fast, accurate and timely reporting of transactions according to certain parameters, and recognition of those which can be considered as transactions that are formed to legalize illegal funds, as well as their timely prevention, in order to prevent money laundering.

InACT

InACT® is a modular application that monitors and prevents transactional fraud, internal misuse, operational faults, and transactions that are contrary to legislation. InACT® protects an institution and its customers against malicious transactions. The solution offers a flexible user experience working in coordination with other back-end and front-end applications. It can easily adapt to the existing working environment of business users through its customisable menus.

Authentication Security Solutions

Authentication solution: SxS

SxS is a two-factor authentication server specifically designed to meet the business and regulatory requirements of multi-channel organizations. SxS enables simultaneous use of different types of end-user devices and OTP standards.

Solutions for digital signature and encryption based on PKI SmartCard technology: PKI VAS, PKI CMS

PKI VAS (Public Key Infrastructure / smartcards): electronic signature solution.

PKI CMS (Credential Management System) is a flexible solution which has been designed to manage all aspects of the lifecycles of certificates that are stored on the hardware devices (e.g. smart cards or tokens) or in files (software certificate issuance).

E-commerce security solution: Trides

Trides is a complete 3D Secure solution certified according to Verified by Visa™, MasterCard SecureCode™, American Express SafeKeySM, and Diners Club ProtectBuySM programs.

Services

iBank

iBank is an integrated multichannel e-Banking solution supporting retail and corporate banking. The solution provides on-line services 24x7, and access to bank's data and services from any place by usage of different devices.

Consulting

Asseco SEE offers **consultancy services** in the area of digital banking and digital transformation. We work with banks and support them in their transition from 'bricks' to 'clicks'.

Infrastructure Services

Asseco SEE's **Infrastructure-as-a-Service** offer provides the businesses with IT computing, memory and storage resources on demand, from within a cloud infrastructure.

PAYMENT BUSINESS UNIT

Asseco SEE provides complete payment industry solutions, for non-financial and financial institutions, supporting card and card-less transactions. Offering includes eCommerce related solutions, mPayments, Processing as well as ATM and POS related services. We deliver software, services including outsourcing and equipment, providing highest level of expertise, maintenance and support through the entire portfolio.

Solutions for payment and financial institutions

ATMs and POS terminals
- installation
- maintenance
- replacement

Our service network includes over 100 service centers. In the SEE region, we maintain over 8,000 ATM, ATS and KIOSK terminals and 220,000 POS's, utilizing fully automated business process management. We are constantly updating and improving functionalities, and bringing added value to our Clients, by tracking latest world trends and significantly investing in R&D (HCE, bill payment, recycling, automatic exchange office, mcash, RKL...). We also support a multivendor approach, and ATM and POS acquiring. One of our priorities is outsourcing, since Asseco SEE above all aspires to having LTA's with its Clients, reducing their operational costs at the same time, enabling them to focus on business.

24/7 Service Support Center
Multivendor solutions for ATMs and POS terminals

Processing

Asseco SEE **processing center** provides quality support in all aspects of payment card processing business. We offer our clients a high level of quality of service, knowledge and experience of our experts, complete solutions and consulting services concerning credit card business. The processing offer includes: **transaction processing & switching services, card issuing & hosting services, ATM & POS acquiring services and fraud management services.**

Mobile Payment: -mPOS

mPOS solution represents a new generation of intelligent and interactive mobile POS solutions for accepting payment cards. Integrated mobile payment solution enables merchants to transform their smartphones into mobile point of sale (mPOS) systems that fully support PIN based transactions (including the use of EMV chip cards), thus reducing start-up costs and minimizing equipment needs. Moreover this system provides merchants with additional payment-acceptance-related services, for example certain level of application and slip customization, branding, inventory management and online preview of transaction history.

-HCE

HCE (Host Card Emulation) is a full-scale mobile payment solution supporting VISA and MasterCard Cloud based payments programs. It encompasses all components from Issuer's side that need to participate for providing a complete CBP (cloud based payments) functionality. Asseco HCE Solution is available as a licensed SW, Software as a service (SaaS) implementation or a combination of both depending on the customer requirements.

**E-commerce:
-Virtual POS - NestPay®**

NestPay® solution is a B2B online card payment platform that handles payments between headquarters and a network of dealers. NestPay® is designed to enable banks to offer card acquiring services to their web merchants. Financial institutions offering online payment services can get benefit from NestPay® Payment Gateway as a service provided by ASEE, using its PCI DSS certified environment. NestPay® technology empowers the banks to enter "Card-Not-Present" (CNP) payment market with full confidence.

**- Switching &
Tokenization - MSU**

MerchantSafe® Unipay (MSU) is a risk reducing payment card tokenization, management and payment integration software for Merchants. Merchants will be able to collect payments remotely from various banks by using our MerchantSafe® Unipay which is an online payment solution offering a secure, easy and convenient checkout experience for both buyers and merchants, from multiple access points i.e. web, ERP systems, CRM systems and e-mail.

MerchantSafe® enables merchants to avoid storing credit/debit card data within their software environment and significantly reduces the scope of their PCI-DSS compliance. MerchantSafe® offers mass card loading, online card loading, card updating / card cancellation, card group definition (all cards connected to the agent number) functions.

Loyalty4All

Loyalty4All® is a solution for retaining and attracting new customers by maximizing customer experience and satisfaction, thus increasing the business value and ROI. System's flexible structure for defining loyalty schemes and simplicity of redeeming mechanism will result in tremendous growth of loyal customers. Standard card payment infrastructure and advance innovative channels are used for capturing purchase habits and for delivering benefits achieved through program participation. This radically minimizes investment necessary for the start up.

Solutions for merchants

Asseco SEE offers a variety of solutions for merchants. In a competitive e-commerce industry, merchants need to act fast and secure. Moreover, merchants need to make virtual POS agreements with multiple banks which makes it difficult to manage payment processes as electronic payment comes out as an alternative channel to the traditional payment systems. Furthermore, ensuring the security of end users' critical information becomes an issue itself.

**Payment Acceptance:
-Payment facilitator
Paratika**

Acting as a payment facilitator, **Paratika** is an electronic payment solution which can be integrated with the virtual POS infrastructure of multiple banks and can also store the card data for future payments in PCI-DSS compatible environment. Paratika comes with a card tokenization technology which provides card holders with a flexibility and ease of use in future payments. Moreover, fast check-out also known as single click payment feature, enables card holders secure, easy and convenient check-out experience.

SYSTEMS INTEGRATION BUSINESS UNIT

**Full range of integration
services**

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 customised 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.

ASEE other software

Business Process Suite

Business Process Suite (BPS) is a content management solution which delivers sophisticated, end-to-end automated business procedures that centralize, accelerate, and greatly increase the accuracy of finance content management.

Live

Live is an advanced CRM platform supporting multiple communication channels and business processes. It integrates various technologies and modules that are part of a standard Contact Center solution. Live is a powerful tool for improvement of customer relations and efficient allocation and organization of support resources.

Fidelity

Fidelity is a full-fledged solution for asset lifecycle management, dedicated primarily to large organizations with dispersed organizational structure. It is a unique solution on the market owing to the comprehensiveness of its modules addressing the full set of requirements of Asset and Spend Management, covering the functionalities of Budget

Control, Procurement and Spend Analysis, as well as traditional ERP functions such as Inventory Management.

Billing systems

SKAI is a billing system for utility companies. This solution enables enterprises to easily handle all of their operations, provide the required level of comprehensive services, and manage their customer relationships efficiently. This system greatly facilitates the management of real estate, distribution network, customer information, and billing processes.

Solutions for leasing companies

- **Lease product and asset management solution**
LeaseFlex

LeaseFlex is a web-based Lease and Asset Management software for equipment and consumer finance. It enables financial service companies to maximize their operational efficiency in business administration and monitoring with a centralized management platform for operational processes and end-to-end management of the lease and asset lifecycle.

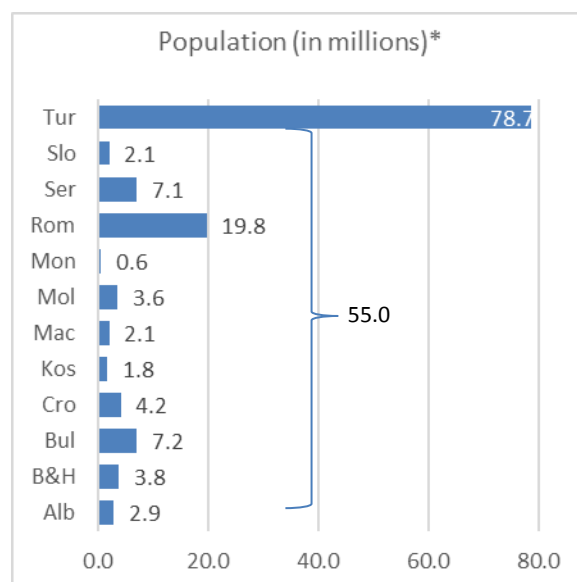
8. SELLING MARKETS

Asseco South Eastern Europe conducts business operations in twelve countries of South Eastern Europe (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, Kosovo, Macedonia, Moldova, Romania, Serbia, Slovenia, and Turkey), as well as in Poland.

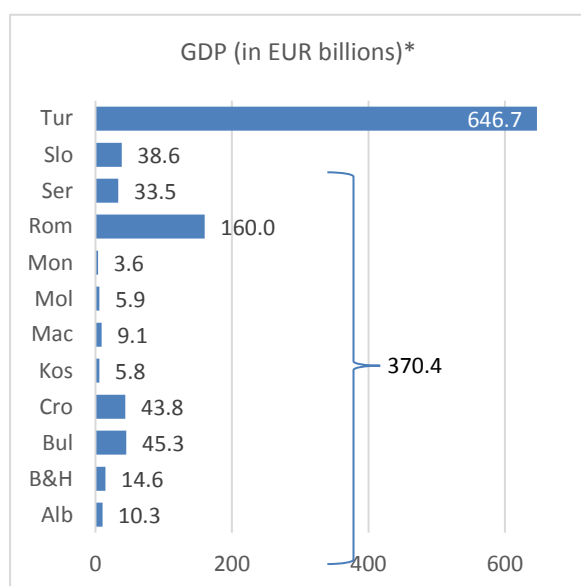
Four of the region's countries, namely Slovenia, Romania, Bulgaria and Croatia are member states of the European Union. Other countries are at various stages of applying for membership in the European Union.

The Group's biggest operations are conducted in the markets of Serbia, Romania, Macedonia, Croatia, and Turkey. We have also managed to develop a significant amount of business in Kosovo and Bosnia and Herzegovina. As far as other markets are concerned, the scale of our operations will be gradually expanded by launching comprehensive offerings of products from all of our business segments.

The following charts display the size of the markets in which ASEE operates, measured by population (as at 1 January 2016) and GDP for the year 2015 of each country.

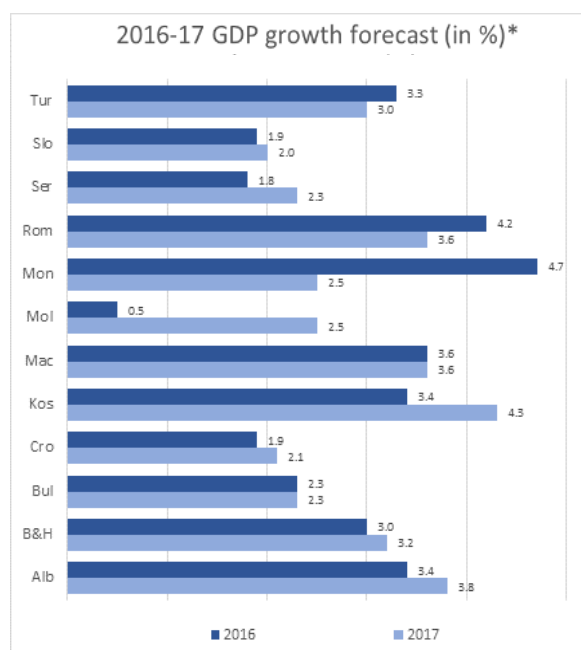


*Source: Eurostat



*Source: Eurostat, tradingeconomics.com

The analysis of data on the population and gross domestic product (GDP) shows that most of the countries in which ASEE operates are small markets, with a relatively low purchasing power. Turkey is an exception where both the number of inhabitants and GDP are higher than in all other countries of ASEE operations taken together.



*Source: International Monetary Fund

GDP forecasts for the years 2016-17 indicate the possibility of economic improvement in the countries of South Eastern Europe. The annual rate of GDP growth is expected to exceed 2 percentage points in most of these countries, and even 4 pp in the most dynamic economies of the region. At the same time, the Eurozone's GDP is supposed to grow by ca. 1.5-

1.6 pp on an annual basis, which is much slower than in the Balkans. From among the countries where ASEE runs its major operations, Romania, Macedonia and Turkey deserve positive recognition; however, in the latter two cases, and especially in Turkey, political turmoil that occurred in 2016 hindered long-term business planning and consequently adversely influenced the level of IT investments. The Management of ASEE believes that despite some political instability, the economic recovery observed in the region contributed to the improvement in the Group's earnings for 2016. The analysis of order backlog for 2017 suggests that our sales will continue to grow also in the next year.

Having analyzed the size and purchasing power of individual markets in which the Group currently operates as well as our competitive position in particular countries, the Management of ASEE intends to concentrate its efforts on expansion of ASEE's business primarily in Turkey, but also in Romania and Bulgaria. Concurrently, the Group plans to defend its strong position in Serbia, Macedonia, Croatia, Slovenia, and Montenegro.

As mentioned above, the Group operates in the markets of South Eastern Europe and Turkey, and that is where most of our revenues were generated during the year ended 31 December 2016. The breakdown of our sales revenues by the client's location is as follows: Serbia – 26%, Romania – 21%, Croatia – 13%, Macedonia – 11%, Turkey – 9%, other South Eastern European countries – 15%, and markets outside that region (including Poland) – 5%.

The increase in sales in markets outside of South Eastern Europe and Turkey is one of the strategic objectives pursued by the Management of ASEE. In the years 2015-2016, the Group was engaged in the execution of significant projects, among others, in Italy, Morocco, Egypt as well as in Saudi Arabia. The Management intends to continue our sales activities in markets located outside of South Eastern Europe and Turkey also in 2017.

During the year ended 31 December 2016, sales to any individual client of the Group did not exceed 10% of our total sales revenues.

The Group subsidiaries operating in particular countries have their own suppliers and therefore the Group is not substantially dependent upon any single supplier.

9. SIGNIFICANT AGREEMENTS CONCLUDED BY THE GROUP

Agreements significant for the Group's operations that were signed during 2016 are presented below in a breakdown to individual operating segments and quarters:

Banking Solutions:

- Digital Banking project for MTS bank in Belgrade (Serbia);
- Contract for implementation of Display Card solution for a bank in Romania;
- Authentication solution (PKI RDS and Trides) for banks and agencies in Croatia.
- Implementation of a complete retail banking solution for one of international banks operating in Serbia;
- Upgrading Absolut solution with a loan management module for a bank in Romania;
- First implementation of Bapo Payment module in the software-as-a-service (SaaS) model in Serbia;
- Implementation of PUB2000 Payment solution at two banks in Croatia;
- Implementation of a business intelligence solution for an international banking group in Serbia.
- Implementation of anti-fraud and anti-money laundering solution (InAct) for a bank in the Netherlands;
- Implementation of HCE (Hosted Card Emulation) software for a bank in Croatia;
- First implementation of key API component of an Omnichannel solution at one of banks in Serbia;
- Delivery of IT security infrastructure for a bank in Croatia.
- Extension of a regional Mobile banking project carried out for one of large international banking groups;
- Implementation of a Mobile banking solution for an Italian bank operating in Bosnia and Herzegovina;
- Implementation of Digital Edge online banking module for banking customers in Romania and Serbia;
- Delivery of SxS authentication solution for a bank in Italy as well as for a regional bank in Bosnia and Herzegovina;
- Implementation of iBank software at two banks in Belgrade;
- Implementation of PUB2000 core banking system and payment module, and Experience Collateral Management module for an international bank in Serbia;
- Delivery of Tezauri solution for an international bank in Macedonia;
- Implementation of Treasury and Collateral Management modules for a bank in Macedonia;
- Delivery of Insurance and Factoring solutions for an agency engaged in financing and insuring export activities in Serbia.
- Implementation of MSU solution for one of industry and finance holdings in Turkey;
- Delivery, installation and maintenance of Wincor-Nixdorf ATMs for OTP bank in Croatia;
- Delivery, installation and maintenance of ATMs for Zagrebacka Banka and Post Bank in Croatia.
- New implementations of MSU solution for a real estate company and a holding in Turkey;
- Delivery and installation of new ATMs for Zagrebacka and Erste banks in Croatia;
- Contract for outsourcing of ATMs for Privredna Banka (Intesa Group) in Croatia.
- Contract for outsourcing of POS terminals as well as processing and authentication of payment transactions for Delhaize Serbia (Ahold Delhaize Group);
- Extension of a contract for outsourcing of ATMs for Privredna Banka in Zagreb;
- 4-year contract for maintenance of POS terminals for BRD bank in Romania;
- Implementation of Troy Payment Scheme solution at a payments institution in Turkey;
- Contracts for implementation of MSU solution at several organizations in Turkey, including holding companies, distributor of mobile devices, payment company, telecommunications company, e-commerce company, and a university.
- Implementation of an electronic signature solution within the Paperless Branch project at UniCredit bank in Serbia;
- Delivery of MSU solution for the Eurasia Tunnel in Istanbul, as well as for one of the largest banks and an oil company in Turkey;
- Delivery and installation of ATMs for Zagrebacka Banka in Croatia, Unicredit in Bosnia and Herzegovina, as well as for one of Macedonian banks.

Systems Integration:

- Implementation of LeaseFlex system for GLC company in Egypt;
- Implementation of Dynatrace APM system for a research agency and payment company in Turkey;
- Delivery of infrastructure for a branch of an international bank in Romania;
- Delivery of Microsoft licenses for an IT company in Romania.
- Implementation of e-invoice and e-book solutions for one of large holdings operating in Turkey;
- Delivery and implementation of Dynatrace solution for a provider of IT services in Turkey;
- Implementation of Security F5 solution at a bank in Romania;

Payment Solutions:

- Delivery of an IT security solution for one of the ministries in Serbia;
- Implementation of a centralized information system for the National Employment Agency in Serbia;
- Delivery and implementation of Telex solution for the Belgrade Airport;
- Deliveries of IT equipment for the Pension Fund in Macedonia and municipal authorities in Skopje.
- Implementation of LeaseFlex integration module for a leasing company in Turkey;
- Installation of Contact Center Live solution for the tax administration in Macedonia;
- Delivery of IT infrastructure for the public administration in Macedonia, including the Government of Macedonia, General Secretariat, and the Directorate for Personal Data Protection;
- Contract for supply of Microsoft Enterprise licenses for one of banks in Romania;
- Delivery of data storage infrastructure, network elements, and data security infrastructure for one of banks in Serbia;
- Delivery of data storage infrastructure and network elements for the tax administration in Serbia.
- Installation of Contact Center Live solution for the Eurasia Tunnel in Istanbul, for a water supply company in Macedonia, as well as for a bank and one of the ministries in Serbia;
- Implementation LeaseFlex solution modules at two leasing companies and a consumer finance firm in Turkey;
- Implementation of Dynatrace APM solution for a large customer in Turkey;
- Implementation of Electric Plant Facility Management (EPFM) solution in Serbia;
- Delivery and installation of Cisco infrastructure for Makedonski Telekom;
- Delivery of infrastructure for two international banks operating in Romania.

10. INFORMATION ON GEOGRAPHICAL STRUCTURE OF FINANCIAL RESULTS

For the year ended 31 December 2016 in thousands of PLN	Albania	Bosnia	Bulgaria	Croatia	Montenegro	Kosovo	Macedonia	Poland	Romania	Serbia	Slovenia	Turkey	Total
Sales revenues	1,990	18,316	4,400	90,970	10,132	12,008	61,125	7,179	126,366	164,021	15,660	58,467	570,634
Cost of sales (-)	(1,547)	(12,883)	(2,844)	(66,350)	(6,756)	(9,691)	(41,670)	(3,927)	(107,491)	(127,345)	(12,298)	(41,483)	(434,285)
Gross profit on sales	443	5,433	1,556	24,620	3,376	2,317	19,455	3,252	18,875	36,676	3,362	16,984	136,349
Selling costs (-)	(55)	(574)	(363)	(7,176)	(184)	(509)	(3,479)	(172)	(7,608)	(11,266)	(290)	(6,445)	(38,121)
General and administrative expenses (-)	(269)	(1,927)	(957)	(7,606)	(724)	(988)	(3,330)	(1,505)	(6,402)	(9,906)	(1,126)	(7,598)	(42,338)
Net profit/(loss) on sales	119	2,932	236	9,838	2,468	820	12,646	1,575	4,865	15,504	1,946	2,941	55,890
Other operating income	-	35	54	147	6	15	410	61	113	152	-	776	1,769
Other operating expenses	(1)	(233)	(58)	(33)	(1)	(25)	(214)	(2)	(9)	(412)	-	(259)	(1,247)
Share of profits of associates	-	-	-	-	368	-	-	-	-	-	-	-	368
Operating profit/(loss)	118	2,734	232	9,952	2,841	810	12,842	1,634	4,969	15,244	1,946	3,458	56,780

For the year ended 31 December 2016 in thousands of EUR	Albania	Bosnia	Bulgaria	Croatia	Montenegro	Kosovo	Macedonia	Poland	Romania	Serbia	Slovenia	Turkey	Total
Sales revenues	455	4,186	1,006	20,790	2,316	2,744	13,969	1,641	28,879	37,485	3,579	13,361	130,411
Cost of sales (-)	(354)	(2,944)	(650)	(15,163)	(1,544)	(2,215)	(9,523)	(897)	(24,566)	(29,103)	(2,811)	(9,480)	(99,250)
Gross profit on sales	101	1,242	356	5,627	772	529	4,446	744	4,313	8,382	768	3,881	31,161
Selling costs (-)	(13)	(131)	(83)	(1,640)	(42)	(116)	(795)	(39)	(1,739)	(2,575)	(66)	(1,473)	(8,712)
General and administrative expenses (-)	(61)	(440)	(219)	(1,738)	(165)	(226)	(761)	(344)	(1,463)	(2,264)	(257)	(1,738)	(9,676)
Net profit/(loss) on sales	27	671	54	2,249	565	187	2,890	361	1,111	3,543	445	670	12,773
Other operating income	-	8	12	34	1	3	94	14	26	35	-	177	404
Other operating expenses	-	(53)	(13)	(8)	-	(6)	(49)	-	(2)	(94)	-	(60)	(285)
Share of profits of associates	-	-	-	-	84	-	-	-	-	-	-	-	84
Operating profit/(loss)	27	626	53	2,275	650	184	2,935	375	1,135	3,484	445	787	12,976

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 in thousands of PLN	Albania	Bosnia	Bulgaria	Croatia	Montenegro	Kosovo	Macedonia	Poland	Romania	Serbia	Slovenia	Turkey	Total
Sales revenues	3,034	15,708	5,113	78,196	7,905	15,129	53,241	7,559	99,608	134,907	12,955	53,850	487,205
Cost of sales (-)	(2,381)	(10,645)	(4,771)	(59,409)	(4,922)	(12,160)	(35,589)	(3,947)	(83,085)	(100,489)	(9,659)	(34,724)	(361,781)
Gross profit on sales	653	5,063	342	18,787	2,983	2,969	17,652	3,612	16,523	34,418	3,296	19,126	125,424
Selling costs (-)	(120)	(987)	(248)	(7,066)	(758)	(531)	(3,186)	(1,223)	(7,934)	(10,290)	(212)	(4,858)	(37,413)
General and administrative expenses (-)	(188)	(1,414)	(690)	(6,609)	(554)	(918)	(2,826)	(708)	(5,433)	(7,842)	(1,032)	(7,785)	(35,999)
Net profit/(loss) on sales	345	2,662	(596)	5,112	1,671	1,520	11,640	1,681	3,156	16,286	2,052	6,483	52,012
Other operating income	14	32	274	10	8	42	287	922	112	9	4	831	2,545
Other operating expenses	-	(68)	(230)	(13)	(42)	(33)	(115)	(324)	(84)	(861)	(8)	(138)	(1,916)
Share of profits of associates	-	-	-	-	597	-	-	-	-	(141)	-	-	456
Operating profit/(loss)	359	2,626	(552)	5,109	2,234	1,529	11,812	2,279	3,184	15,293	2,048	7,176	53,097

For the year ended 31 December 2015 in thousands of EUR	Albania	Bosnia	Bulgaria	Croatia	Montenegro	Kosovo	Macedonia	Poland	Romania	Serbia	Slovenia	Turkey	Total
Sales revenues	725	3,754	1,222	18,686	1,889	3,615	12,723	1,806	23,803	32,237	3,096	12,867	116,423
Cost of sales (-)	(569)	(2,544)	(1,140)	(14,196)	(1,176)	(2,906)	(8,504)	(943)	(19,854)	(24,013)	(2,308)	(8,298)	(86,451)
Gross profit on sales	156	1,210	82	4,490	713	709	4,219	863	3,949	8,224	788	4,569	29,972
Selling costs (-)	(29)	(236)	(59)	(1,689)	(181)	(127)	(761)	(292)	(1,896)	(2,459)	(51)	(1,160)	(8,940)
General and administrative expenses (-)	(45)	(338)	(165)	(1,579)	(132)	(219)	(675)	(169)	(1,298)	(1,874)	(247)	(1,862)	(8,603)
Net profit/(loss) on sales	82	636	(142)	1,222	400	363	2,783	402	755	3,891	490	1,547	12,429
Other operating income	3	8	65	2	2	10	69	220	27	2	1	198	607
Other operating expenses	-	(16)	(55)	(3)	(10)	(8)	(27)	(77)	(20)	(206)	(2)	(33)	(457)
Share of profits of associates	-	-	-	-	143	-	-	-	-	(34)	-	-	109
Operating profit/(loss)	85	628	(132)	1,221	535	365	2,825	545	762	3,653	489	1,712	12,688

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

11. KEY ECONOMIC AND FINANCIAL FIGURES AND SIGNIFICANT EVENTS WITH IMPACT ON BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE

	3 months ended 31 Dec. 2016	3 months ended 31 Dec. 2015	Change %	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015	Change %
PLN'000	(unaudited)	(unaudited)		(audited)	(audited)	
Sales revenues	179,424	139,718	28%	570,634	487,205	17%
Gross profit on sales	43,632	33,136	32%	136,349	125,424	9%
Net profit on sales	20,717	14,864	39%	55,890	52,012	7%
Operating profit	20,327	14,406	41%	56,780	53,097	7%
EBITDA	30,340	22,744	33%	94,030	83,396	13%
Net profit for the reporting period	20,292	11,088	83%	51,548	43,502	18%
Net profit attributable to Shareholders of the Parent Company	20,176	11,088	82%	51,468	43,580	18%

	3 months ended 31 Dec. 2016	3 months ended 31 Dec. 2015	Change %	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015	Change %
EUR'000	(unaudited)	(unaudited)		(audited)	(audited)	
Sales revenues	40,864	32,863	24%	130,411	116,423	12%
Gross profit on sales	9,939	7,779	28%	31,161	29,972	4%
Net profit on sales	4,722	3,496	35%	12,773	12,429	3%
Operating profit	4,632	3,384	37%	12,976	12,688	2%
EBITDA	6,911	5,343	29%	21,489	19,928	8%
Net profit for the reporting period	4,627	2,600	78%	11,781	10,395	13%
Net profit attributable to Shareholders of the Parent Company	4,599	2,601	77%	11,762	10,414	13%

Financial results achieved by ASEE Group in the fourth quarter of 2016 were considerably stronger than in the comparable period last year. All of our business segments generated higher sales, while the Banking Solutions segment contributed most to the improvement of our operating profit. Owing to robust financial performance in the last quarter, the 2016 full-year results of ASEE Group were also noticeably better than a year ago.

The improvement in ASEE Group's operating profit for 2016 was achieved mainly by the Banking Solutions segment. The financial performance of our Payment Solutions segment in 2016 was comparable to the previous year, while the Systems Integration segment reported weaker results. This was partially attributable to a review and recognition of additional write-downs on capitalized software development costs in that segment. The most important events that have affected the reported financial results are presented below.

Sales revenues

In the fourth quarter of 2016, sales revenues presented in Polish zlotys and euros increased by PLN 39.7 million or 28% and by EUR 8 million or 24%, respectively, both in relation to 2015.

In the last three months of 2016, higher sales were generated by all business lines of ASEE Group. The largest improvement was achieved in

the Payment Solutions segment, where sales were by EUR 3.4 million or 37% higher than in the comparable period of 2015. Stronger revenues were primarily generated from the maintenance of ATMs and POS terminals in Romania, Serbia, and Macedonia, realized largely in the traditional model of sale and maintenance of equipment. The segment's sales grew also in Serbia on the back of processing and authentication of payment transactions – revenues generated by Chip Card exceeded EUR 400 thousand in the fourth quarter alone.

The fourth quarter of 2016 was very prosperous for the Banking Solutions segment. The segment's revenues increased by EUR 2 million (or 22%) in relation to the comparable period last year. The largest portion of this growth resulted from the sale of authentication and mobile solutions that are offered by ASEE in Croatia.

Revenues of the Systems Integration segment reached EUR 17 million in the fourth quarter, reflecting an increase by EUR 2.6 million (or 18%) in relation to the comparable period last year. Higher sales were recorded from the supply of infrastructure and third-party software, as well as from the provision of integration services primarily in Macedonia, Serbia, and in Romania.

Sales revenues by segments

	3 months ended 31 Dec. 2016	3 months ended 31 Dec. 2015	Change	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015	Change
PLN'000	(unaudited)	(unaudited)	%	(audited)	(audited)	%
Banking Solutions	48,156	38,189	26%	146,277	134,384	9%
Payment Solutions	56,499	40,174	41%	199,392	160,130	25%
Systems Integration	74,769	61,355	22%	224,965	192,691	17%
	179,424	139,718	28%	570,634	487,205	17%

	3 months ended 31 Dec. 2016	3 months ended 31 Dec. 2015	Change	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015	Change
EUR'000	(unaudited)	(unaudited)	%	(audited)	(audited)	%
Banking Solutions	10,970	8,980	22%	33,430	32,112	4%
Payment Solutions	12,860	9,419	37%	45,568	38,265	19%
Systems Integration	17,034	14,464	18%	51,413	46,046	12%
	40,864	32,863	24%	130,411	116,423	12%

Total sales revenues generated by ASEE Group in 2016 reached PLN 570.6 million and were higher by PLN 83.4 million or 17% than in the previous year. If presented in euros, our sales equalled EUR 130.4 million, increasing by EUR 14 million or 12%.

Revenues of the Banking Solutions segment amounted to EUR 33.4 million in 2016 and were by EUR 1.3 million or 4% higher than in 2015. Higher sales were recorded primarily in Croatia (an increase by EUR 0.6 million), where the fourth quarter brought stronger revenues from mobile and authentication solutions. The segment's sales increased also in Serbia (by EUR 0.4 million), Macedonia (by EUR 0.2 million), and in Romania (by EUR 0.2 million). We are also satisfied with higher sales generated by operations which do not offer their own banking systems and have to rely on solutions delivered from other countries. This group included such countries as Bosnia and Herzegovina and Bulgaria. During 2016, the segment recorded weaker sales of banking solutions in Kosovo and Turkey.

Sales of the Payment Solutions segment reached EUR 45.6 million in 2016, increasing by EUR 7.3 million or 19% in relation to the previous year. Higher revenues were achieved mainly from our physical payments business. In 2016, revenues from the sale and maintenance of POS terminals and ATMs rose by nearly EUR 6 million, however, most of this amount was attributable to the sale of POS related infrastructure and services. Growing revenues of this segment were also a consequence of the acquisition of Chip Card, a Serbian company engaged in the processing and authentication of payment transactions. This new business line has operated as part of ASEE since April 2016 and managed to generate more than EUR 1 million in revenues over a 9-month period. The Payment Solutions segment recorded stronger sales in most of its markets, including in Bosnia and Herzegovina, Croatia, Romania, Serbia, and Slovenia.

Having increased by nearly EUR 5.4 million or 12%, sales of the Systems Integration segment reached EUR 51.4 million in 2016. Higher sales were recorded both in the segment's section engaged in the supply of infrastructure and integration services (an increase by EUR 4.2 million or 11%), as well as in the section offering proprietary solutions of ASEE (an increase by EUR 1.2 million or 16%). In 2016, the segment's revenues increased most considerably in Serbia, improving by over EUR 3.5 million in comparison with the year-ago level. Stronger sales were also reported by our Romanian and Macedonian operations.

Gross profit on sales

The above-mentioned growth in sales revenues by EUR 14 million was accompanied by an increase in the cost of sales by EUR 12.8 million, as a result of which our gross profit on sales reached nearly EUR 31.2 million, which is EUR 1.2 million or 4% more than in 2015.

Whereas, our production costs aggregated at EUR 47.8 million in 2016 and were higher by over EUR 4.1 million or 9.5% than in the previous year. In the same period, the cost of goods, materials and third-party services sold (COGS) increased by nearly EUR 8.7 million or 20%. Such growth in the cost of goods, materials and third-party services sold resulted from higher sales of infrastructure and third-party software licenses by the Systems Integration segment.

Our gross profit margin decreased from 25.7% in 2015 to 23.9% in 2016. The factors that caused a decrease in this margin included: higher portion of resale in the revenue structure of ASEE Group, lower margins realized on such resale, additional subcontractor costs that were incurred in ongoing projects, as well as recognition of write-downs on capitalized software development costs.

Net profit on sales

Consolidated net profit on sales for 2016 improved by EUR 344 thousand or 3% as a cumulative effect of an increase in gross profit on sales by EUR 1.2 million, decrease in selling expenses by EUR 228 thousand or 3%, and an increase in general and administrative expenses by EUR 1.1 million or 12%. Our selling expenses stated in euros decreased in the wake of depreciation in the exchange rate of PLN vs. EUR in 2016, however, selling expenses presented in PLN were slightly higher (by PLN 0.7 million) than in the comparable period last year. General and administrative expenses were higher partially as a result of adding such expenses of our newly consolidated companies (Chip Card and E-Mon), but also due to organizational changes as a

result of which some of our strictly sales-related resources now provide support for entire business operations, and therefore the costs of such resources are disclosed in general and administrative expenses.

Consolidated net profit on sales of ASEE Group for 2016 improved owing to stronger results achieved in our Banking Solutions segment (an increase by EUR 0.8 million). This has been partially offset by weaker performance from the Systems Integration segment (a decrease by EUR 0.4 million). The reasons behind such performance of individual segments have been described in the above section on sales revenues as well as in the below section discussing our operating profit.

Net profit on sales by segments

	3 months ended 31 Dec. 2016 (unaudited)	3 months ended 31 Dec. 2015 (unaudited)	Change %	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)	Change %
PLN'000						
Banking Solutions	13,038	4,331	201%	21,595	17,455	24%
Payment Solutions	5,321	5,646	-6%	28,002	26,895	4%
Systems Integration	2,358	4,887	-52%	6,293	7,662	-18%
Net profit on sales	20,717	14,864	39%	55,890	52,012	8%

	3 months ended 31 Dec. 2016 (unaudited)	3 months ended 31 Dec. 2015 (unaudited)	Change %	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)	Change %
EUR'000						
Banking Solutions	2,997	1,016	193%	4,936	4,171	19%
Payment Solutions	1,207	1,316	-8%	6,399	6,427	0%
Systems Integration	538	1,164	-54%	1,438	1,831	-22%
Net profit on sales	4,722	3,496	35%	12,773	12,429	3%

Operating profit and EBITDA

Operating profit of ASEE Group for 2016 reached EUR 13 million, increasing by EUR 288 thousand or 2% as compared with the previous year. It should be noted that the Group's operating profit for 2015 was favourably influenced by the reimbursement of excessive tax paid on civil law transactions by the holding company in the years 2008–2010. The net amount of reimbursed tax (after deducting the costs of legal proceedings) equalled EUR 144 thousand and was recognized in operating income.

Operating profit of the Banking Solutions segment for 2016 amounted to EUR 4.9 million, reflecting an increase by EUR 0.8 million or 18% in relation to the previous year. The largest contribution to this growth was made by the Croatia-based subsidiary of ASEE, which is basically a provider of authentication and mobile solutions. The segment's results improved also in Romania and Macedonia. On the other hand, our operating profit deteriorated in Serbia where in 2016 we needed to create provisions for additional costs of projects that are currently in progress, as well as in Turkey due to the weaker

sales of our anti-fraud and anti-money laundering solution called InAct.

Operating profit earned by the Payment Solutions segment in 2016 amounted to EUR 6.4 million. An improvement of operating results by more than EUR 0.2 million was generated from the supply and maintenance of POS terminals and ATMs, primarily in Romania where we signed a number of new outsourcing contracts for POS terminals, as well as in Bulgaria where we made deliveries of infrastructure in the traditional model of POS terminal maintenance. Whereas, operating profit earned by the segment's section responsible for the settlement of online payments was slightly lower in 2016 than in the previous year. Here, a decline by almost EUR 0.2 million was chiefly a consequence of making expenditures in order to commercialize the Paratika solution, which was partially compensated by favourable results achieved from the NestPay and MSU solutions.

Operating profit of the Systems Integration segment for 2016 amounted to a bit more than PLN 1.4 million, decreasing by EUR 0.4 million or 22% as compared with the previous year. Weaker results

were reported by the segment's section that is engaged in the implementation of projects based on proprietary IT solutions of ASEE Group. This was mainly a consequence of write-downs on capitalized software development costs that were recognized in Turkey in the fourth quarter, as well as the recognition of write-downs and additional costs of subcontractors for projects implemented in Serbia during 2016. Whereas, the segment's section responsible for the supply of infrastructure, third-party software and integration services recorded stronger results in 2016. Operating profit from this business improved on the back of new projects carried out primarily in Turkey and Serbia.

Our consolidated EBITDA for 2016 reached EUR 21.5 million, improving by EUR 1.6 million or 8% in comparison to the previous year. Higher amounts of EBITDA generated by the Payment Solutions segment (an increase by EUR 1.3 million) and the Banking Solutions segment (an increase by nearly EUR 0.8 million) were partially offset by weaker performance from the Systems Integration segment (a decrease by over EUR 0.3 million). A further decline in EBITDA by EUR 190 thousand resulted from other operations which are not allocated to any of our operating segments. In the Payment Solutions segment, EBITDA increased faster than operating profit as a result of higher depreciation charges on equipment provided to our clients in the outsourcing model.

Net profit

Consolidated net profit of ASEE Group for 2016 amounted to almost EUR 11.8 million and was higher by EUR 1.4 million or 13% than in the previous year.

The Group's net result on financial operations equalled EUR 957 thousand in 2016, as compared with EUR 135 thousand reported for the previous year.

Consolidated result on financial operations for 2016 was affected by the fair value measurement of our 50% shareholding in E-Mon Montenegro held at the date of obtaining control, which resulted in recognition of a financial income of PLN 4.1 million (EUR 942 thousand). This operation was a one-time event. Whereas, in the first nine months of 2015, we

recognized a one-off financial income of EUR 121 thousand of interest that was related to the above-described reimbursement of excessive tax paid on civil law transactions. Net of the impact of single-time events, in 2016 our result on financial operations amounted to EUR 15 thousand, remaining at a similar level as a year ago (PLN 14 thousand).

In 2016, our income tax expense amounted to slightly over EUR 2.15 million (effective tax rate of 15.45%) as compared with EUR 2.43 million incurred in the previous year (effective tax rate of 18.94%). Income tax expense resulted from our current business operations conducted in individual countries as well as from income taxes on dividends received by the holding company from its subsidiaries. During 2015, the holding company received dividends among others from Macedonia, Serbia, Kosovo as well as from Bosnia and Herzegovina amounting in total to EUR 11 million, which caused withholding tax and income tax charges and increased our effective tax rate. During 2016, the holding company received dividends only from its operations located in EU countries and Bosnia and Herzegovina amounting in total to EUR 0.2 million. The lack of significant dividend income from non-EU countries resulted in a decrease of our income tax expense in comparison to the previous year. Excluding taxes related to dividends, our effective tax rate for 2016 was slightly higher than a year ago.

Analysis of financial ratios

	3 months ended 31 Dec. 2016 (unaudited)	3 months ended 31 Dec. 2015 (unaudited)	Year ended 31 Dec. 2016 (audited)	Year ended 31 Dec. 2015 (audited)
Gross profit margin	24.3%	23.7%	23.9%	25.7%
EBITDA margin	16.9%	16.3%	16.5%	17.1%
Operating profit margin	11.3%	10.3%	10.0%	10.9%
Net profit margin	11.2%	7.9%	9.0%	8.9%
Return on equity (ROE)			7.2%	6.4%
Return on assets (ROA)			5.7%	5.1%

The above ratios have been computed using the following formulas:

Gross profit margin = gross profit on sales / sales

EBITDA margin = (operating profit + depreciation and amortization) / sales

Operating profit margin = operating profit / sales

Net profit margin = net profit for the reporting period attributable to Shareholders of the Parent Company / sales

Return on equity (ROE) = net profit for the period of trailing 12 months attributable to Shareholders of the Parent Company / average annual equity attributable to Shareholders of the Parent Company

Return on assets (ROA) = net profit for the period of trailing 12 months attributable to Shareholders of the Parent Company / average annual assets

In the year 2016, gross profit margin equalled 23.9%, decreasing by 1.8 percentage points in relation to the comparable period of 2015. Our profitability at this level declined primarily as a result of a higher share of infrastructure and third-party solutions in the revenue structure of ASEE Group, increased production costs incurred due to hiring new production employees and subcontractors for ongoing projects, as well as recognition of impairment write-downs on capitalized software development costs.

Such change in the revenue structure and increasing costs also affected our profitability at other levels; hence, EBITDA margin decreased from 17.1% in 2015 to 16.5% in the next year. At the same time, operating profit margin declined from 10.9% to 10.0%. Changes in the levels of our operating profit and operating margin have been explained in detail above.

As a consequence of a high financial income and a lower income tax expense, we recorded a slight increase in net profit margin despite a decrease in operating profit margin. Our net profit margin reached the level of 9.0% for the full year 2016.

Stronger financial performance of ASEE Group during 2016 resulted in an improvement of ROA and ROE ratios. Return on equity for the period of 12 months of 2016 equalled 7.2%, increasing by 0.8 percentage points; whereas, return on assets reached the level of 5.7%, increasing by 0.6 percentage points.

	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Working capital (in thousands of PLN)	118,752	103,809
Current liquidity ratio	1.64	1.79
Quick liquidity ratio	1.44	1.58
Absolute liquidity ratio	0.66	0.79

The above ratios have been computed using the following formulas:

Working capital = current assets - current liabilities

Current liquidity ratio = current assets / current liabilities

Quick liquidity ratio = (current assets - inventories - prepayments) / current liabilities

Absolute liquidity ratio = (short-term financial assets + cash and short-term bank deposits) / current liabilities

As at 31 December 2016, our working capital amounted to PLN 118.8 million, reflecting an increase by PLN 14.9 million above the level reported as at the end of December 2015. During the last twelve months, total current assets increased by almost PLN 68.4 million, mainly due to the higher amounts of trade receivables by PLN 42.8 million and cash and cash equivalents by PLN 18.5 million. In the same period, total current liabilities grew by PLN 53.4 million, primarily as a consequence of increases in trade payables by PLN 21.7 million, liabilities to the state budget by PLN 9.9 million, other liabilities by PLN 8.0 million, as well as in deferred income by PLN 9.2 million.

Our liquidity ratios as at the end of December 2016 were slightly lower than as at the end of the previous year, but they still remain at safe levels.

Analysis of debt

	31 Dec. 2016 (audited)	31 Dec. 2015 (audited)
Total debt ratio	23%	19%
Debt / equity ratio	6.1%	6.6%
Debt / (debt + equity) ratio	5.7%	6.2%

The above ratios have been computed using the following formulas:

Total debt ratio = (long-term liabilities + short-term liabilities) / assets

Debt / equity ratio = interest-bearing bank loans / equity

Debt / (debt + equity) ratio = interest-bearing bank loans / (interest-bearing bank loans + equity)

The slightly higher total debt ratio as compared with the level reported as at the end of 2015 is attributable to the above-mentioned increase in total current liabilities. The total amount of interest-bearing bank loans and borrowings stated in Polish zlotys decreased slightly by PLN 0.7 million. Whereas, our interest-bearing liabilities stated in euros, being the currency in which most of the Group's debt is denominated, were reduced by EUR 556 thousand to the total level of EUR 10.1 million as at the end of 2016.

Structure of the consolidated statement of financial position

Structure of assets

	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	PLN'000	PLN'000	%	%
Non-current assets	642,938	613,842	68%	72%
Property, plant and equipment	102,161	86,369	11%	10%
Intangible assets	30,180	33,566	3%	4%
Goodwill	505,634	488,566	53%	58%
Other	4,963	5,341	1%	1%
Current assets	303,510	235,154	32%	28%
Inventories	23,474	15,506	2%	2%
Trade receivables and prepayments	140,878	95,917	15%	11%
Receivables from valuation of IT contracts	11,722	15,951	1%	2%
Short-term financial assets	3,090	2,713	0%	0%
Cash and cash deposits	119,546	101,075	13%	12%
Other	4,800	3,992	1%	0%
TOTAL ASSETS	946,448	848,996	100%	100%

Goodwill is the main component of ASEE Group's assets. The amounts of goodwill may change in the wake of an appreciation or depreciation of the Polish zloty against the foreign currencies in which individual items of goodwill are denominated, as well as due to potential company acquisitions or disposals conducted by the Group. During 2016, goodwill increased by PLN 17 million, of which PLN 6.4 million was attributable to the acquisition of companies (primarily E-Mon), and the remaining amount resulted from foreign currency translation differences.

The increase in property, plant and equipment by PLN 15.8 million, and consequently their higher share in the value of total assets, resulted primarily

from purchases of POS terminals and ATMs used in the services of outsourcing of payment processes provided by our Payment Solutions segment.

Intangible assets decreased by PLN 3.4 million, mainly due to amortization charges and partial liquidation of software disclosed in completed development projects, as well as a lower amount of capitalized product development costs.

As at the end of 2016, current assets were higher by PLN 68.4 million than those reported at the end of the previous year. The higher total of current assets resulted from increases in trade receivables and prepayments by PLN 45 million, as well as in cash and cash equivalents by PLN 18.5 million.

Structure of equity and liabilities

	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	PLN'000	PLN'000	%	%
Equity	732,411	688,275	77%	81%
Non-current liabilities	29,279	29,376	3%	3%
Interest-bearing bank loans	21,807	24,849	2%	3%
Other	7,472	4,527	1%	1%
Current liabilities	184,758	131,345	20%	15%
Interest-bearing bank loans	22,789	20,480	2%	2%
Trade payables and accruals	82,289	61,398	9%	7%
Deferred income	21,752	12,532	2%	1%
Liabilities arising from IT contracts	7,811	4,562	1%	1%
Financial liabilities	1,198	750	0%	0%
Other current liabilities	48,919	31,623	5%	4%
TOTAL EQUITY AND LIABILITIES	946,448	848,996	100%	100%

As at 31 December 2016, equity accounted for 77% of total equity and liabilities, declining from 81% reported as at 31 December 2015. During 2016, the structure of equity and liabilities changed primarily due to a higher amount of current liabilities by PLN 53.4 million, which was

a consequence of increases in trade payables and accruals by PLN 20.9 million, liabilities to the state budget by PLN 9.9 million, other liabilities by PLN 8.0 million, as well as in deferred income by PLN 9.2 million.

Structure of the statement of cash flows

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	PLN'000	PLN'000
Cash and cash equivalents at the beginning of the period	99,868	88,117
Net cash provided by (used in) operating activities	87,681	75,279
Net cash provided by (used in) investing activities	(38,287)	(41,583)
Net cash provided by (used in) financing activities	(29,545)	(20,467)
Foreign exchange differences	(1,659)	(1,478)
Cash and cash equivalents at the end of period	118,058	99,868

In the year 2016, our operating activities provided PLN 87.7 million of net cash flows. Operating cash inflows were high in relation the Group's profit mainly because the increasing amounts of receivables and inventories were offset by a higher level of liabilities. As a result, cash flows generated by operating activities were nearly equal to the amount of gross profit plus depreciation and amortization charges, less income tax paid.

Investing activity expenditures amounted to PLN 38.3 million in 2016, decreasing by PLN 3.3 million in relation to the previous year. Expenditures for the acquisition of property, plant and equipment and intangible assets amounted to PLN 30.3 million, decreasing by PLN 8.2 million from the level of PLN 38.5 million observed in 2015. Such decrease resulted mainly from lower purchases of infrastructure to be used in the outsourcing of payment processes which are disclosed under investing activity cash flows. In 2016, such expenditures amounted to PLN 20 million as compared with nearly PLN 29 million spent in 2015. Software development costs that were capitalized in 2016 amounted to PLN 5.2 million, remaining at a similar level as in the previous year. Expenditures for the acquisition of subsidiaries and associates resulted from the purchase of 53.81% of shares in Chip Card for the amount of PLN 5.1 million (EUR 1.17 million) in March, as well as the purchase of 25% of shares in E-Mon for the amount of PLN 2.8 million (EUR 0.65 million) in October. In both the cases, the purchase price has been disclosed in the statement of cash flows net of cash held by each acquired company as at the acquisition date.

In 2015, net cash used in our financing activities amounted to PLN 29.5 million. Such negative cash flows were basically a consequence of a dividend payment in the total amount of PLN 21.8 million that was distributed to shareholders of ASEE.

Expenditures for the acquisition of non-controlling interests amounting to PLN 3 million were made to acquire further stakes of shares in Chip Card in Serbia, which was taken over by ASEE Group in April 2016. ASEE Group spent a total of EUR 1.85 million (PLN 8.1 million) to purchase 85.02% of shares in Chip Card. A portion of this investment is presented under investing activity cash flows (net of cash held by the acquired company as at the acquisition date), whereas the remaining portion is disclosed in cash flows from financing activities.

12. EXTERNAL AND INTERNAL FACTORS SIGNIFICANT FOR THE GROUP'S DEVELOPMENT

The Management Board of ASEE S.A. believes the Group's current financial standing, operating potential and market position pose no threats to its ability to continue as a going concern throughout the year 2017. However, there are numerous factors, of both internal and external nature, which may directly or indirectly affect the Group's financial performance in the next quarters.

The external factors with a bearing on the future performance of ASEE Group include:

- Economic situation in the region of South Eastern Europe and Turkey, especially in the context of observed business recovery that may affect the volume of orders and financial condition of ASEE Group's customers, as well as the future economic situation and an eventual return of local markets to a sustainable growth path;
- Geopolitical situation in South Eastern Europe and Turkey, where potential political tensions and instability of local governments may cause a deterioration of the investment climate and thus induce ASEE customers to delay or even abandon the implementation of IT projects; another consequence of potential political tensions might be an interruption of IT investments in the public administration which is a client of ASEE Group;
- Condition of the IT market in the region of South Eastern Europe and Turkey; this part of Europe remains still underinvested in terms of information technology as compared with the West European countries;
- Implementation of informatization processes at the region's public administration bodies in order to upgrade the quality and functionality of their services to international standards and especially to the European Union requirements;
- Availability of the EU structural funds in Romania, Bulgaria, Slovenia and Croatia, as well as pre-accession funds in other countries;

- Consolidation and development of the banking sector in the region of South Eastern Europe and Turkey;
- Outlook for expansion of the Group's operations into new markets through cooperation with partners;
- Prospects for expansion of ASEE's product portfolio on the back of organic growth or in connection with potential future acquisitions;
- More and more severe competition both from local and international IT companies which is observed especially when it comes to the execution of large and prestigious contracts;
- Changes in the credit standing, financial liquidity and availability of financing for the Group's customers;
- Inflation and fluctuations in the currency exchange rates of countries in which the Group operates;
- Level of interest rates in the Eurozone because a significant portion of ASEE Group's debt is denominated in EUR;
- Opportunities and risks resulting from rapid technological changes and innovations in the IT market.

The internal factors with a bearing on the future performance of our Group include:

- Premium quality and comprehensive offer of ASEE Group;
- Research and development expenditures made by the Group;
- Stability and experience of our managerial staff;
- Transparent organizational structure and efficient operations of the Group;
- Experience in the execution of complex IT projects involving the provision of diversified services in broad geographical regions;
- Effective activities of our sales force;
- Execution of complex information technology projects carried out under long-term contracts;
- Implementation of the Group's business strategy that involves focusing on strategic products and services, expansion into new markets, and improving operating efficiency;
- Successful completion of potential company acquisitions in the future.

13. SIGNIFICANT RISK FACTORS AND THREATS

Major risk factors involved in the Group's business environment

Risk related to general macroeconomic situation in South Eastern Europe and Turkey

ASEE S.A. is the parent company of the Group which runs operations in the countries of South Eastern Europe and Turkey. The Company's and the Group's strategy assumes reinforcement of our position in the region as well as further expansion in the region and in other emerging markets. As a consequence of the planned growth, business operations of ASEE may be influenced by factors depending on the economic and political stability of the region. Development of the IT services sector is closely correlated to the overall economic situation of South Eastern European countries. Our financial results are to a large extent driven by the pace of GDP growth, level of capital expenditures made by enterprises, and the inflation rate.

Risk associated with political instability in the region of South Eastern Europe and Turkey

Potential changes in the governments of South Eastern European countries and Turkey as well as civil unrest may initiate periods of political instability, which may result in a reduction of public spending.

Risk related to intensified competition in South Eastern Europe and Turkey

The market of information technology infrastructure and services is becoming more and more competitive in South Eastern Europe. With a variety of services and products in our portfolio, we are tough competition to large consulting firms, multinational technological giants, IT outsourcing providers as well as software houses, inclusive of internal IT departments of large corporations operating in the region. The IT industry undergoes rapid changes resulting from investments in new technologies made primarily by large companies and acquisitions of local businesses by international players. Furthermore, the biggest global corporations, which have been so far active only in the large enterprises market, expand their offerings with solutions and implementation methodologies dedicated also to medium-sized companies.

The risk associated with the condition of the regional banking sector

The provision of IT solutions and services to banks and other financial institutions is one of our core businesses. The financial sector experiences a lack of stability and is under strong pressure to cut investment spending and optimize operating costs, which may have an adverse impact on the Group's operations. The banking sector around the world, and especially in South Eastern Europe, undergoes intensive processes of consolidation where much attention paid to the standardization of solutions and optimization of costs at the corporate level. If the headquarters of a bank group choose other global participants of the IT market as their preferred suppliers of IT technologies, this may have adverse effects for the Group's operations.

Risk of potential legal disputes concerning copyrights

Development of the Group's operations in the market of IT products depends to a large degree on ownership of intellectual property rights, and especially copyrights to computer programs. Because of a variety of legal regulations pertaining to the protection of intellectual property applicable in the countries where our subsidiaries operate, there is a risk that in some circumstances there may be doubts as to the effectiveness of assignment of copyrights in software codes compiled by employees in favour of their employers.

Furthermore, there is also a risk that in some countries where the Group operates, local regulations may not provide adequate protection of copyrights in computer programs owned by our subsidiaries. Taking advantage of such situation by other local firms with a similar business profile may lead to the loss of ASEE's competitive edge in a given market.

Risk of changes in local tax regulations

Some of the Group companies are engaged in innovative research and development activities which, according to local regulations, may be taxed on a preferential basis compared to typical operations. In the event of any amendment of local tax regulations, there is a risk of losing tax benefits in this respect and thus increasing the tax burden on ASEE's income.

Foreign currency exposure risk

The Group conducts business operations in many countries of South Eastern Europe and Turkey. Contracts concluded by the Group companies are denominated in miscellaneous currencies, also in currencies that are foreign to the countries where the Group operates. Temporary fluctuations in the currency exchange rates as well as long-term trends in the currency market may impact the financial results of the Group.

Risk of interest rate hikes in the Eurozone

Most of ASEE Group's external debt is denominated in EUR and bears a variable interest rate based on EURIBOR. A potential increase in the euro-zone interest rates would translate into higher financial costs incurred on the Group's debt.

Major risk factors involved in the Group's business operations

Risk of fluctuations in revenues and expenditures

Due to the project-driven nature of IT investments, sales revenues generated by the Group companies may be subject to considerable fluctuations from period to period. It is possible that in the future our revenues and operating results will fall short of the market expectations because of the completion of work performed under large-scale projects. Moreover, due to technological changes, the Group's existing technology and products may become obsolete and will require making sizeable new investments. The above processes may have negative impact on the rate of return on investment or the amount of dividends to be paid out.

Risk of non-performance or improper performance of projects and losing the clients' trust

In each area of our business, the provision of services by the Group depends on the clients' trust and the quality of our products and services. Adequate implementation of an IT project, which is mission critical for the operations of our client, in most cases results in signing a long-term contract. The quality of solutions and customer service provided to our clients determines their confidence in our Group.

Risk associated with fixed-price contracts

Some contracts for provision of IT services or products concluded by the Group determine a fixed remuneration and therefore they are not settled on the *time-and-material basis*. If we misevaluate the resources and time required for the project performance, future salary increases, inflation or foreign exchange rates, or if we fail to perform our contractual obligations within the agreed deadline, this may have an adverse impact on the Group's financial results and cash flows.

Risk associated with gaining new IT contracts

Some of the Group's sales revenues are generated from projects won in tendering procedures organized by state institutions and companies as well as by large private enterprises. Most of such tenders are attended by leading IT companies in the region and major foreign companies, which results in a fairly high competition. Our business depends on the availability of reliable information about future investment plans, in the public and private sectors, with regard to information and telecommunications technology. Access to such information, in particular regarding the state sector, is very limited. Additionally, limited experience in obtaining the EU structural funds in Romania, Bulgaria, Slovenia and Croatia may hinder our ability to generate the expected level of growth.

Risk of becoming dependent on the key customers

The Group's business is to a great extent based on the execution of long-term projects which require a large work effort. Implementation of the key account contracts will heavily impact the level of our sales revenues in the coming years.

Risk of becoming dependent on the key suppliers

The Group's business is characterized by close cooperation with big international companies. There is a risk that the key suppliers to our Group may change their strategies for cooperation with local partners or may want to tighten their cooperation with one partner of their choice. Furthermore, they may start to offer the implementation services for their products themselves or else increase the prices of the products supplied.

Risk related to the profitability of integration projects

In some of the markets where the Group operates, providers of integration services generate higher margins of profit than average margins realized in mature economies. Hence, it may be expected that such margins will be squeezed once these markets become saturated.

Risk related to insolvency or misconduct of our subcontractors

In certain cases, we provide our clients with the solutions developed and completed by our subcontractors. Just as any other entrepreneurs, our subcontractors may face business or financial difficulties and become unable to fulfil their obligations towards us or our clients.

Risk related to technological changes in the industry and development of new products and services

The IT sector is characterized by rapid development of solutions and technologies. Hence, the product lifecycles in such a market are relatively short. In order to maintain a competitive advantage in this market, it is necessary to undertake research work and invest in new products. There is a risk that new solutions will be launched to the market, causing the products and services offered by the Group to become less attractive and eventually not as profitable as expected.

Risk involved in strategic investments in complementary industries, technologies, services or products as well as in strategic alliances with third parties

While implementing the Group's development strategy, we may engage in strategic investments, establish companies, undertake joint ventures and make acquisitions related to complementary industries, technologies, services or products. Despite exercising due care when selecting our business partners, we may be unable to identify a suitable partner or to manage such a venture or acquisition appropriately. As a consequence we may be exposed to typical risks involved in mergers and acquisitions.

Risk of misfortunate acquisitions

Business acquisitions are one of the cornerstones of ASEE's development. We are trying to take over businesses that are truly complementary to the Group's offering and are in good financial condition. Our acquisition processes are based on the best market practices. However, there is a risk that our acquisition decisions will turn out to be wrong and that acquired companies will fail to meet our expectations, which may adversely affect the Group's financial results.

Risk involved in integration of the Group

The Group is exposed to a risk associated with effective integration of ASEE S.A. and its subsidiaries, especially as the Group's companies operate in various markets and in various countries. It is our strategy to integrate the subsidiary undertakings with Asseco South Eastern Europe S.A. and to make further company acquisitions in South Eastern Europe. Nonetheless, we cannot entirely exclude the risks of delays, partial completion or failure to complete the intended integration process.

Apart from that, even our subsidiaries and further potentially acquired entities are successfully integrated with the Group, we may still be unable to fully integrate the products and services portfolios of particular companies, or to continue the development processes in line with our present corporate practices.

Risk of becoming dependent on the key management personnel

Just as in the majority of companies developing IT systems, highly qualified personnel and managerial staff are the main pillars of the Group's success. We operate in the information technology industry which is characterized by a high rotation of personnel. It is probable that the Group will be unable to retain its present employees or to recruit new, equally highly qualified employees in the future. In many cases, key members of the management staff are concurrently the founders of our subsidiaries. Losing some of the key management members would have a negative impact on the Group's operations, financial position and results as well as on its future development outlook.

Risk of impairment of intangible assets

A significant portion of our consolidated assets is represented by goodwill arising from the acquisition of companies that currently comprise ASEE Group, as well as by proprietary software generated from capitalized software development expenditures. These assets are tested for impairment at the end of each year. In the event such test showed that the fair value of an asset was lower than its carrying value, we would have to recognize a fair value impairment write-down that would weigh on the Group's financial results. Impairment tests conducted as at 31 December 2016 did not indicate a necessity to recognize any write-downs on our intangible assets; however, there is a risk that such a situation may arise in the future.

Risk of low liquidity and loss of value of our shares

Investors considering the purchase of ASEE shares should take into account that the trading price of our shares may change in the future and that they may not be able to recover all invested funds. Furthermore, any purchase or sale of ASEE shares depend on the market liquidity, hence the execution of an investment decision may not be possible at a given time.

Risk related to dividends

Our potential investors should be aware of the fact that distribution of any dividends by ASEE will depend on a number of factors, such as the Group's operating results, its financial standing as well as the current and anticipated demand for cash. It is the Management's intention to allocate a portion of our net earnings to dividends; however, the Company is not in the position to guarantee that such plans will be actually executed nor to determine the amounts of future dividend payments.

Risk related to influence exerted by the Company's majority shareholder

As at the date of publication of this report, Asseco Poland S.A., our majority shareholder, holds 55.34% of shares in our Company. We expect that Asseco Poland S.A. will maintain its position as a majority shareholder and retain significant influence on our Company's business operations. Asseco Poland S.A. is entitled to exercise broad rights with respect to its shareholding in our Company and it must be taken into account that in the present situation Asseco Poland S.A. has a decisive impact on the Company's strategic decisions.

14. KEY FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Company's financial statements are prepared in compliance with the International Accounting Standards (IAS) as well as the International Financial Reporting Standards (IFRS) as endorsed by the European Union. Responsibilities under the internal control and risk management systems, as adopted by ASEE S.A. in the process of preparing its financial statements, are performed by the Management Board, Supervisory Board, Audit Committee and other employees acting in accordance with the applicable internal procedures and regulations (such as dispositions, bylaws, instructions, job descriptions of respective employees) and other regulations. Members of the key personnel are responsible for design, implementation and monitoring of an effective and efficient internal control system as well as for identification and review of any risk exposures. The main elements of the Company's internal control system, whose objective is to eliminate the risks involved in the preparation of financial statements, are as follows:

- ongoing controls undertaken at all the levels and organizational units of the Company as well as in its subsidiaries, which shall ensure compliance with guidelines issued by the Management Board and enable identification and appropriate response to any significant risks
- efficient and reliable information flow system, which shall enable collection and verification of data provided by the Group companies as well as prompt response in case any deviations from the budget are detected;
- annual and semi-annual audits of standalone and consolidated financial statements by an entity authorized to audit financial statements;

- audits of annual financial statements of the Group companies,
- internal regulations specifying the duties, rights and responsibilities of individual organizational units, with particular emphasis on the staff directly engaged in the preparation of financial statements;
- protection of the Company's important information and prevention against their unauthorized disclosure;
- regular monitoring of financial directors and other staff responsible for the preparation of financial reports at the companies incorporated within ASEE Group, with the aim to maintain control, identify any risks and threats, and to determine the required preventive actions.

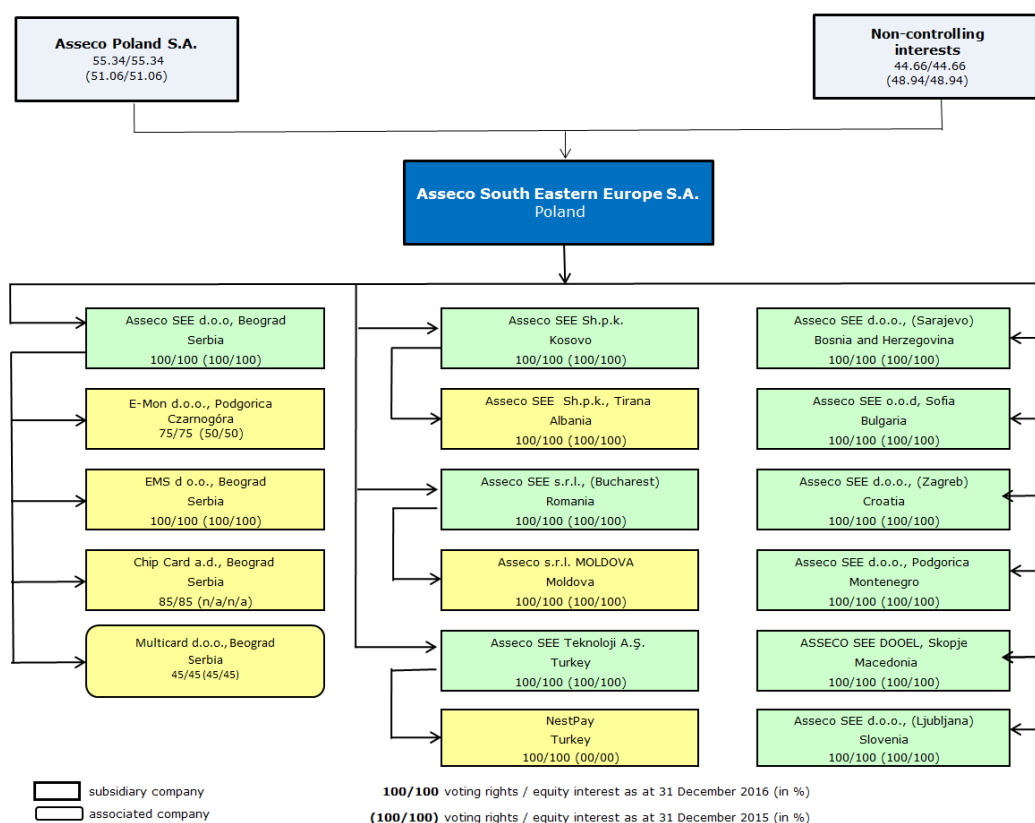
The Company's standalone and consolidated financial statements are drawn up by the Head of Group Reporting; whereas, their final content is subject to approval by the Company's Management Board which oversees all the business operations and processes.

15. MAJOR CAPITAL INVESTMENTS

Our capital investments have been described in items 4 and 5 of this Management Report on Operations of ASEE Group.

16. ORGANIZATIONAL AND EQUITY RELATIONSHIPS OF THE ISSUER

Asseco South Eastern Europe S.A. is the parent company of Asseco South Eastern Europe Group and concurrently a subsidiary of the higher-level parent company Asseco Poland S.A. The Issuer's position as well as its organizational and equity relationships are presented below in the chart of ASEE Group organizational structure.



17. RELATED PARTY TRANSACTIONS

During 2016, neither Asseco South Eastern Europe S.A. nor any of its subsidiaries conducted any transactions with their related parties other than on an arm's length basis.

Information on related party transactions carried out during the period of 12 months ended 31 December 2016 has been presented in explanatory note 30 to the annual consolidated financial statements of ASEE Group.

18. ASSESSMENT OF THE FINANCIAL RESOURCES MANAGEMENT

During the year ended 31 December 2016, ASEE Group had no problems with timely settlement of its trade payables, payment of regulatory state charges, or with fulfilling its investment commitments.

19. AGREEMENTS FOR BANK LOANS AND BORROWINGS

Information on liabilities of ASEE Group under bank loans and borrowings outstanding as at 31 December 2016 and 31 December 2015 has been presented in explanatory note 21 to the Group's annual consolidated financial statements for the year 2016.

20. LOANS GRANTED DURING THE FINANCIAL YEAR

During the year ended 31 December 2016, the Parent Company granted loans to its subsidiaries. Basic information on these loans is presented in the table below:

Name of entity	31 Dec. 2016	Effective interest rate	Currenc	Repayment date
	PLN'000	% y		
ASEE Croatia	2,252	1M EURIBOR + margin	EUR	2020-12-14
ASEE Serbia	6,079	3M EURIBOR + margin	EUR	2018-09-30
ASEE Serbia	2,888	3M EURIBOR + margin	EUR	2019-03-31
ASEE Serbia	1,523	3M EURIBOR + margin	EUR	2018-12-31
ASEE Serbia	732	3M EURIBOR + margin	EUR	2019-03-31
	13,474			

Moreover, the Parent Company granted a loan to an unrelated entity which amounted to PLN 89 thousand as at the end of the reporting period. The borrower is a foreign company that cooperates with ASEE Group in the sale of our software solutions outside the region of South Eastern Europe.

As at 31 December 2016, the amounts outstanding under loans granted in previous years were as follows:

Name of entity	31 Dec. 2016	Effective interest rate %	Currency	Repayment date
PLN'000				
ASEE Montenegro	2,495	1M EURIBOR + margin	EUR	2020-12-14
ASEE Bulgaria	535	3M EURIBOR + margin	EUR	2017-07-15
ASEE Slovenia	887	1M EURIBOR + margin	EUR	2020-12-19
ASEE Slovenia	1,596	1M EURIBOR + margin	EUR	2020-12-19
ASEE Slovenia	709	1M EURIBOR + margin	EUR	2020-12-19
ASEE Turkey	1,675	1M LIBOR USD + margin	USD	2017-06-15
ASEE Croatia	2,172	1M EURIBOR + margin	EUR	2020-12-14
ASEE Croatia	999	1M EURIBOR + margin	EUR	2020-12-14
ASEE Croatia	1,147	1M EURIBOR + margin	EUR	2020-12-14
ASEE B&H	2,704	1M EURIBOR + margin	EUR	2017-12-31
ASEE Serbia	8,906	1M EURIBOR + margin	EUR	2017-12-19
	23,825			

21. SURETIES AND GUARANTIES

During the year ended 31 December 2016, the Parent Company did not issue any new guarantees/sureties for its subsidiaries.

Our off-balance-sheet liabilities arising from the sureties and guarantees issued by ASEE Group have been described in explanatory note 28 to the annual consolidated financial statements of ASEE Group for the year 2016.

22. UTILIZATION OF PROCEEDS FROM ISSUANCE OF SHARES

During the reporting period ended 31 December 2016, we did not issue any new shares.

23. EXPLANATION OF DIFFERENCES BETWEEN THE FINANCIAL RESULTS DISCLOSED IN THE ANNUAL REPORT AND PREVIOUS FINANCIAL FORECASTS FOR THE YEAR

AssecO South Eastern Europe S.A. did not publish any financial forecasts for the year reported.

24. FEASIBILITY OF INVESTMENT PLANS

Referring to our business strategy described in item 6 above, the Group's investment plans include both capital investments in new entities as well as organic growth, which shall involve making expenditures for research and development in order to enhance innovation of our product portfolio, expenditures for infrastructure used in the outsourcing of payment processes, as well as expenditures for replacement and maintenance of infrastructure used in our operating activities.

Our capital expenditures are mostly financed from the Group's own funds, except for infrastructure used in the outsourcing of payment processes that is largely financed with bank loans.

It is also probable that any potential company acquisitions will be financed from external sources.

Furthermore, ASEE Group may choose to finance its future investment expenditures through the issuance of new shares.

25. CHANGES IN THE POLICIES OF COMPANY AND GROUP MANAGEMENT

Changes in the Group's management policies, which were introduced in 2016, and further plans concerning the direction of such changes have been described in item 6 of this report.

26. AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND ITS MANAGEMENT AND SUPERVISORY PERSONNEL

ASEE S.A. did not sign any agreements of such nature.

27. MONITORING OF EMPLOYEE STOCK OPTION PLANS

ASEE Group does not offer any employee stock option plans.

28. REMUNERATION DUE TO THE ISSUER'S MANAGEMENT AND SUPERVISORY PERSONNEL

Information on remuneration due to the Issuer's management and supervisory personnel has been disclosed in explanatory note 32 to the annual consolidated financial statements of ASEE Group for the year 2016.

29. SHAREHOLDERS STRUCTURE

To the best knowledge of the Management Board of Asseco South Eastern Europe S.A., 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.

30. SHARES HELD BY MANAGEMENT AND SUPERVISORY PERSONNEL

Changes in the numbers of Asseco South Eastern Europe shares held by the Company's management and supervisory staff:

Supervisory Board Members	Number of shares held as at			
	17 Feb. 2017	31 Dec. 2016	21 Oct. 2016	31 Dec. 2015
Adam Góral ¹⁾	-	-	-	-
Jacek Duch ²⁾	-	-	-	-
Jan Dauman	-	-	-	-
Artur Kucharski ³⁾	-	-	-	-
Andrzej Mauberg ⁴⁾	-	-	-	-
Mihail Petreski ⁵⁾	-	-	-	-
Przemysław Sęczkowski	-	-	-	-
Gabriela Żukowicz	150	150	150	150

Management Board Members	Number of shares held as at			
	17 Feb. 2017	31 Dec. 2016	21 Oct. 2016	31 Dec. 2015
Piotr Jeleński	550	550	550	550
Miljan Mališ ⁶⁾	-	-	-	-
Miodrag Mirčetić ⁷⁾	-	-	-	-
Marcin Rułnicki	-	-	-	-

- 1) Adam Góral, President of the Management Board of Asseco Poland S.A. serving as Chairman of the Supervisory Board of ASEE S.A., is a shareholder in Asseco Poland S.A. which in turn is a shareholder in ASEE S.A.; both as at 31 December 2016 and 17 February 2017, Asseco Poland S.A. held 28,716,032 shares in ASEE S.A.
- 2) Jacek Duch, Chairman of the Supervisory Board of Asseco Poland S.A. serving as Member of the Supervisory Board of ASEE S.A., is a shareholder in Asseco Poland S.A. which in turn is a shareholder in ASEE S.A.; both as at 31 December 2016 and 17 February 2017, Asseco Poland S.A. held 28,716,032 shares in ASEE S.A.
- 3) Mr. Artur Kucharski was appointed as Member of the Supervisory Board of ASEE S.A. with effect from 31 March 2016.
- 4) Andrzej Mauberg resigned from the position of Member of the Supervisory Board of ASEE S.A. with effect from 26 February 2016.
- 5) Mihail Petreski, serving as Member of the Supervisory Board of ASEE S.A. till 31 December 2016, is a shareholder in the company Liatris d.o.o. which in turn is a shareholder in ASEE S.A.; as at 31 December 2016, Liatris d.o.o. held 1,155,533 shares in ASEE S.A.
- 6) Miljan Mališ, Member of the Management Board of ASEE S.A., is a shareholder in the company Mini Invest d.o.o. which in turn is a shareholder in ASEE S.A.; as at 31 December 2016, Mini Invest d.o.o. held 500,000 shares in ASEE S.A., whereas as at 17 February 2017, this company is no longer a shareholder in ASEE S.A.
- 7) Miodrag Mirčetić, Member of the Management Board of ASEE S.A., is a shareholder in the company I4-INVENTION d.o.o. which in turn is a shareholder in ASEE S.A.; as at 31 December 2016, I4-INVENTION d.o.o. held 330,016 shares in ASEE S.A., whereas as at 17 February 2017, this company is no longer a shareholder in ASEE S.A.

31. AGREEMENTS WHICH MAY RESULT IN CHANGES OF THE EQUITY INTERESTS HELD

On 22 December 2016, Asseco Poland S.A. and EBRD signed an addendum to the option agreement concerning the purchase of the remaining 2,589,524 shares held by EBRD in ASEE S.A., whereby the period for the exercise of put or call rights has been changed. This option shall be effective in the period from 28 December 2017 till 28 March 2018.

According to the best knowledge of the Management Board of Asseco South Eastern Europe S.A., there are no other agreements under which the equity interests held by the Company's existing shareholders would change in the future.

Information concerning any restrictions on disposal of shares, which may result in changes of the equity interests held by existing shareholders, is presented in item 7 of the Asseco South Eastern Europe's Declaration of compliance with the corporate governance standards.

32. AGREEMENT WITH THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS

The agreement with the entity authorized to audit financial statements, namely Ernst & Young Audyt Polska Sp. z o.o. (limited partnership), to carry out audits of the standalone and consolidated financial statements of ASEE S.A. drawn up for the year ended 31 December 2016 was signed on 21 July 2016.

33. REMUNERATION PAID OR PAYABLE TO THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS

Information on remuneration due to the entity authorized to audit financial statements has been presented in explanatory note 33 to the annual consolidated financial statements of ASEE Group for the year 2016.

34. SIGNIFICANT OFF-BALANCE-SHEET ITEMS

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.

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

35. INFORMATION ON PENDING LEGAL PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF ASSECO SOUTH EASTERN EUROPE S.A. OR ITS SUBSIDIARIES

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 allegedly 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.

During the reporting period, no other proceedings were instituted or pending before any court, arbitration authority or public administration authority, concerning any liabilities or receivables of Asseco South Eastern Europe S.A. or its subsidiaries, whose aggregate value would equal or exceed 10% of the Company's equity.

36. INFORMATION ON THE ISSUER

Information on the issuer as required under § 92 sect. 4 of the Regulation of the Minister of Finance of 19 February 2009 regarding current and periodic information to be published by issuers of securities and conditions for recognizing as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259) is included in the declaration of compliance with the corporate governance standards which has been published along with the annual report of ASEE S.A. on 17 February 2017.

Signatures of all Members of the Management Board of Asseco South Eastern Europe S.A. under the Management Report on Operations of Asseco South Eastern Europe Group for the year ended 31 December 2016

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

Rzeszów, 17 February 2017

DECLARATIONS MADE BY THE MANAGEMENT BOARD OF ASEE S.A.

Pursuant to the requirements under the Regulation of the Minister of Finance of 19 February 2009 regarding current and periodic information to be published by issuers of securities, the Management Board of Asseco South Eastern Europe S.A. hereby declares that:

- to the best of its knowledge, the consolidated financial statements of Asseco South Eastern Europe Group for the year ended 31 December 2016 and the comparable data contained therein have been prepared in compliance with the International Financial Reporting Standards as endorsed by the European Union, issued and effective as at the date of preparation of these financial statements, and furthermore the presented data give a true, reliable and fair view of the property, financial position and financial results of Asseco South Eastern Europe Group. The report on operations of Asseco South Eastern Europe Group provides a fair description of the development, achievements and economic position of Asseco South Eastern Europe Group, inclusive of major risks and threats to its operations.

- Ernst & Young Audyt Polska Sp. z o.o. (limited partnership), the entity authorized to audit the consolidated financial statements of Asseco South Eastern Europe Group for the year ended 31 December 2016, has been chosen in accordance with the provisions of the law in force. This entity as well as certified auditors, who carried out the said audit, satisfied the conditions for expressing an impartial and independent opinion on the audited annual consolidated financial statements of Asseco South Eastern Europe Group, in line with the applicable regulations and professional standards.

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

Rzeszów, 17 February 2017