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for demanding
business.



**ANNUAL REPORT
OF ASSECO SOUTH EASTERN EUROPE GROUP
FOR THE YEAR ENDED
31 DECEMBER 2017**

Rzeszów, 19 February 2018



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

Rzeszów, 19 February 2018

Dear Shareholders,

In 2017, ASEE recorded the best ever financial performance in 10 years of its history. This success was supported by signing new regional long-term contracts in the segments of Banking Solutions and Payment Solutions, as well as by improving the efficiency of projects executed in the Systems Integration segment. Throughout the year, we enjoyed powerful interest in our mobile solutions, authentication security solutions, as well as payment card processing and authorization services.

Last year, we also commenced the process of separating our Payment Solutions segment, being the most mature and uniform business of ASEE Group, into a standalone company called Payten.

Record-breaking results

Sales revenues generated by ASEE Group in 2017 reached EUR 134.5 million, increasing by 3% in comparison with the previous year. Yet our sales of own products and services grew even more dynamically, exceeding their 2016 level by 8%. Our key revenue driver was the Payment Solutions segment which generated EUR 49.9 million in sales, making a 9.6% improvement year on year. Stronger revenues were achieved primarily from handling of physical payments, but we also observed a dynamic growth in revenues from processing and authorization of payment cards, being present in our portfolio just for one year.

The Banking Solutions segment generated sales of EUR 35.9 million in 2017, showing an increase by 7.2% in relation to the previous year, mainly on the back of robust sales of mobile and authentication solutions. Whereas, the Systems Integration segment managed to boost its revenues from own software solutions by EUR 0.8 million, although its total sales dropped to the level of EUR 48.7 million or by 5.5% if compared with the previous year.

A slight increase in the Group's consolidated sales for 2017 that was accompanied by a higher efficiency of operations resulted in a significant 20% increase of our operating profit, which reached EUR 15.5 million. In 2017, the improvement in ASEE Group's operating performance was achieved mostly owing to the Systems Integration segment.

Regional long-term contracts

During 2017, within our payment solutions business, we signed a major regional contract for outsourcing of 600 ATMs to Addiko Bank in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro, as well as the Master Distribution Agreement with Diebold Nixdorf covering the region of Central and Eastern Europe. We also concluded a number of contracts for deployment of our proprietary solutions that enable banks to meet the new regulatory requirements, including the implementation of Asseco IFRS 9 Impairment Solution and Basel III Solution.

A new company in Asseco South Eastern Europe Group

As part of the initiated process of separating our Payment Solutions segment into a standalone company called Payten, last year we registered the first such entity in Croatia. At the beginning of 2018, we registered the division of our operations in Serbia and also established Payten company in Macedonia. Analogous division processes are currently underway in Romania, Turkey, as well as in Bosnia and Herzegovina.

The decision to spin off our payment business into a standalone company was made in response to changes that are taking place in the payments market, which has seen rapid development in recent years and is becoming a separate sector of the economy. I am convinced that such reorganization will let us focus even more on gaining new business. It will also provide us with greater flexibility that is expected by our customers, partners and suppliers. Moreover, I believe it will contribute to the dynamic growth of payment business in the entire Asseco, increasing our profitability, expanding the product portfolio, improving the quality of services provided, and will also help accelerate our expansion into other markets.

Strategic directions of development

Sales of our own products and services accounted for 65.8% of ASEE Group's total revenues in 2017, as compared with 60.9% in the previous year. It has been our ambition for many years to boost the share of proprietary solutions and services in our revenue structure, and our strategy is focused on promoting such sales on a long-term basis.

Another strategic direction of development is to continue on expanding our portfolio of own products and services. In 2018, we will make efforts to enrich and reinforce our payment solutions offer by adding new services and products, both through organic growth and acquisitions. We plan, among others, to launch an independent network of MoneyGet ATMs in selected countries of the region, including in Croatia in cooperation with UniCredit Group, in Montenegro, Albania and Serbia.

Within the Banking Solutions segment, we will continue to support banks in their digital transformation processes, either by launching innovative products and solutions (e.g. Digital Origination & Onboarding solution for offering bank products and acquiring clients), or by providing packages of solutions that enable banks to adapt to new regulations (e.g. our PSD2 Enabler Package that helps meet the requirements of the PSD II Directive).

We are also looking at new markets, in particular emerging markets such as Egypt where we conduct advanced talks with potential customers for our LeaseFlex leasing solution, or Kazakhstan where we see great potential for our authentication products, and many more.

We will carry on improving the efficiency of our operations through better project management and greater utilization of available resources.

The best year in the history of any company sets a very high target to surpass in the next year. I believe, however, that thanks to our experts and attractive, diversified product portfolio as well as competitive prices, we will be able to develop and grow further.

I would like to thank ASEE Group's employees, partners and customers for very favourable results we achieved in 2017.

Piotr Jeleński

CEO, Group President

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**MANAGEMENT REPORT ON OPERATIONS
OF ASSECO SOUTH EASTERN EUROPE COMPANY AND
GROUP
FOR THE YEAR ENDED
31 DECEMBER 2017**

Rzeszów, 19 February 2018

**MANAGEMENT REPORT ON OPERATIONS
OF ASSECO SOUTH EASTERN EUROPE COMPANY AND GROUP
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 STRUCTURE OF THE ISSUER AND THE ISSUER'S GROUP	8
6. DIRECTIONS OF DEVELOPMENT POLICY OF THE COMPANY AND THE GROUP	8
7. KEY PRODUCTS, GOODS FOR RESALE, AND SERVICES	12
8. SELLING MARKETS OF THE COMPANY AND THE GROUP	17
9. SIGNIFICANT AGREEMENTS CONCLUDED BY THE COMPANY AND THE GROUP	19
10. INFORMATION ON GEOGRAPHICAL STRUCTURE OF FINANCIAL RESULTS	21
11. KEY ECONOMIC AND FINANCIAL FIGURES OF THE COMPANY	22
12. KEY ECONOMIC AND FINANCIAL FIGURES OF ASEE GROUP AND SIGNIFICANT EVENTS WITH IMPACT ON BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE OF THE GROUP	23
13. EXTERNAL AND INTERNAL FACTORS SIGNIFICANT FOR DEVELOPMENT OF THE COMPANY AND THE GROUP	30
14. SIGNIFICANT RISK FACTORS AND THREATS	31
15. KEY FEATURES OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS	34
16. MAJOR CAPITAL INVESTMENTS	35
17. ORGANIZATIONAL AND EQUITY RELATIONSHIPS OF THE ISSUER	35
18. RELATED PARTY TRANSACTIONS	36
19. ASSESSMENT OF THE FINANCIAL RESOURCES MANAGEMENT	36
20. AGREEMENTS FOR BANK LOANS AND BORROWINGS	36
21. LOANS GRANTED DURING THE FINANCIAL YEAR	36
22. SURETIES AND GUARANTIES	36
23. UTILIZATION OF PROCEEDS FROM ISSUANCE OF SHARES	37
24. EXPLANATION OF DIFFERENCES BETWEEN THE FINANCIAL RESULTS DISCLOSED IN THE ANNUAL REPORT AND PREVIOUS FINANCIAL FORECASTS FOR THE YEAR	37
25. FEASIBILITY OF INVESTMENT PLANS	37
26. CHANGES IN THE POLICIES OF COMPANY AND GROUP MANAGEMENT	37
27. AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND ITS MANAGEMENT AND SUPERVISORY PERSONNEL	37
28. MONITORING OF EMPLOYEE STOCK OPTION PLANS	37
29. REMUNERATION DUE TO THE ISSUER'S MANAGEMENT AND SUPERVISORY PERSONNEL	37
30. SHAREHOLDERS STRUCTURE	38
31. SHARES HELD BY MANAGEMENT AND SUPERVISORY PERSONNEL	38
32. AGREEMENTS WHICH MAY RESULT IN CHANGES OF THE EQUITY INTERESTS HELD	38
33. AGREEMENT WITH THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS	39
34. REMUNERATION PAID OR PAYABLE TO THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS	39
35. SIGNIFICANT OFF-BALANCE-SHEET ITEMS	39
36. INFORMATION ON PENDING LEGAL PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF ASSECO SOUTH EASTERN EUROPE S.A. OR ITS SUBSIDIARIES	39
37. INFORMATION ON THE ISSUER	39
DECLARATIONS MADE BY THE MANAGEMENT BOARD OF ASEE S.A.	41

1. GENERAL INFORMATION ON THE ISSUER

Asseco South Eastern Europe S.A. (the "Parent Company", "Company", "Issuer", "ASEE S.A.") seated at 14 Olchowa St., Rzeszów, Poland, was established on 10 April 2007 as a joint stock company.

On 11 July 2007, the Company was entered in the register of entrepreneurs maintained by the District Court in Rzeszów, XII Commercial Department of the National Court Register, under the number 0000284571.

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

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

2. BUSINESS PROFILE OF THE ISSUER AND ITS CAPITAL GROUP

Asseco South Eastern Europe S.A. is engaged in holding operations which primarily involve the management of business lines focusing on IT companies that currently belong to ASEE Group in South Eastern Europe and Turkey, as well as investments in new IT sector companies in that region. The operating activities of ASEE S.A. also include the sale of services and software to support customer communication channels and business processes (contact center), as well as supply of authentication solutions.

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, online payment settlement systems, and transaction processing services, while it is also engaged in the sale, outsourcing and 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. Moreover, our clients can rely on on-line 24x7 services and consultancy in the area of digital 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. The product portfolio of ASEE includes solutions for e-Commerce (NestPay®, MSU, Paratika), mobile payments (mPOS, HCE), payment card processing, as well as services related to ATMs and POS terminals. The Group delivers software, services including outsourcing and equipment, providing the highest level of expertise, maintenance and support through the entire portfolio.

The Systems Integration segment serves the financial, industry and public administration sectors with the following business lines: development of IT infrastructure, implementation and support services, ensuring continuity of business processes, automation of operations, and customized software development. This segment also includes a group of proprietary solutions of ASEE. Among such solutions are LIVE contact center, BPS content management solution, as well as Fidelity asset lifecycle management solution. 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 19 February 2018, the Company's Management Board, Supervisory Board and Audit Committee were composed of the following persons:

Supervisory Board	Management Board	Audit Committee
Jozef Klein	Piotr Jeleński	Artur Kucharski
Adam Góral	Miljan Mališ	Adam Pawłowicz
Jacek Duch	Miodrag Mirčetić	Jacek Duch
Artur Kucharski	Marcin Rułnicki	
Adam Pawłowicz		

During the reporting period, the composition of the Company's management and supervisory bodies changed as follows:

The previous term of office of Members of the Supervisory Board of ASEE S.A. expired on 30 March 2017. On the same day, the Ordinary General Meeting of Shareholders passed a resolution to appoint Artur Kucharski as Member of the Supervisory Board for the next term of office, from 31 March 2017 till 31 March 2022. In addition, the Company's shareholders, namely Asseco Poland and the European Bank for Reconstruction and Development, exercised their statutory rights to appoint the following persons: Adam Góral, Gabriela Żukowicz, Jozef Klein, and Jacek Duch as Members of the Supervisory Board for the next term of office. Whereas, Jan Dauman and Przemysław Sęczkowski were not appointed for the next term of office at the Supervisory Board.

On 15 May 2017, the Supervisory Board appointed Mr. Jozef Klein as Chairman of the Supervisory Board of ASEE S.A., and Mr. Adam Góral as Vice Chairman of the Supervisory Board of ASEE S.A.

Moreover, the Supervisory Board elected the Audit Committee in the following composition: Artur Kucharski – Chairman the Audit Committee, Gabriela Żukowicz and Jacek Duch – Members of the Audit Committee.

On 15 May 2017, the Supervisory Board passed a resolution to appoint the Management Board for the new five-year joint term of office running from 12 July 2017 to 12 July 2022. The existing Members of the Management Board have been appointed to serve over the new term of office.

On 17 October 2017, Mrs. Gabriela Żukowicz filed a resignation from the position of Member of the Supervisory Board of ASEE S.A. with effect from 18 October 2017.

On 17 October 2017, Asseco Poland S.A. appointed Mr. Adam Pawłowicz as Member of the Supervisory Board of ASEE S.A. for the ongoing, joint term of office lasting till 31 March 2022, with effect from 18 October 2017.

The composition of our Audit Committee was changed on 18 October 2017. Due to Mrs. Gabriela Żukowicz's resignation from membership in the Supervisory Board, Mr. Adam Pawłowicz was appointed as Member of the Audit Committee.

In the period from 31 December 2017 till the publication of this report, this is till 19 February 2018, 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 2017 and 31 December 2016.

Full name of entity	Short name as used in this report	Country of registration	Equity interest / Voting rights	
			31 Dec. 2017	31 Dec. 2016
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%	75.00%
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	92.50%	85.02%
Asseco SEE d.o.o. (Zagreb)	ASEE Croatia	Croatia	100.00%	100.00%
Payten d.o.o. (Zagreb)	Payten Croatia	Croatia	100.00%	n/a
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.Ş.	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%

On 19 December 2017, the Management Board of ASEE S.A. was notified by Asseco International a.s., seated in Bratislava ("AI") that on 14 December 2017 Asseco Poland S.A. made a non-cash contribution of 26,494,676 of the Company's shares in favour of AI, in exchange for the acquisition by Asseco Poland S.A. of shares issued by AI.

As at 31 December 2017, AI (our higher-level parent) held 26,494,676 shares representing 51.06% in the share capital of our Company, which carried 26,494,676 votes or 51.06% of total voting rights at the Company's General Meeting of Shareholders. The parent company of Asseco International a.s. is Asseco Poland S.A.

As at 31 December 2017, Asseco Poland S.A. had no direct shareholding in our Company; whereas, as at 31 December 2016, Asseco Poland S.A. held 55.34% of shares in ASEE S.A.

Since 1 November 2016, E-Mon Montenegro has been treated as a subsidiary company within the Group's organizational structure and therefore it is fully consolidated. Until the date of obtaining control by ASEE Serbia, that company was treated as a jointly controlled company and therefore consolidated under the equity method in line with IFRS 11.

Multicard Serbia is an associated company accounted for using the equity method. Up until 30 September 2013, Multicard Serbia was treated as a subsidiary and subject to full consolidation.

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

Both as at 31 December 2017 and 31 December 2016, 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 STRUCTURE OF THE ISSUER AND THE ISSUER'S GROUP

During the year ended 31 December 2017, the organizational structure of ASEE Group changed as follows:

Merger of EMS d o.o. with ASEE Serbia

The merger of ASEE Serbia (acting as the taking-over company) and EMS d o.o. Serbia (being the acquired company) was registered on 20 January 2017. This merger had no impact on the consolidated financial statements of ASEE Group.

Acquisition of shares in Chip Card a.d. (Serbia)

On 26 May 2017, ASEE Serbia acquired an additional 7.49% stake of shares in Chip Card, thereby increasing its shareholding in that company from 85.02% to 92.5%. Expenditures for the acquisition of these non-controlling interests amounted to EUR 163 thousand (PLN 702 thousand).

Separation of Payten d.o.o., Zagreb (Payten Croatia)

On 19 September 2017, a new company called Payten Croatia was officially separated from ASEE Croatia. Following such division, we now operate two separate entities engaged in the payment business and other operations, respectively.

The separation of a new company in Croatia is part of a broader process aiming to formally spin off our payment services into a standalone organizational unit, which is described in the next item.

During the period of 12 months ended 31 December 2017, there were no other changes in the organizational structure of either ASEE Group or the Issuer.

6. DIRECTIONS OF DEVELOPMENT POLICY OF THE COMPANY AND THE GROUP

ASEE S.A. is primarily engaged in holding operations and focuses on managing the Group of companies as well as on extending its geographical coverage and product portfolio (holding activities). Its operating activities also include the sale of services and software to support customer communication channels and business processes (contact center), as well as supply of authentication solutions.

Because the Parent Company is primarily engaged in holding operations, directions of the Company's development need to be examined taking into account the development and operations of the entire ASEE Group.

In 2018, 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 revenue structure of ASEE Group;
- 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 our 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 undertaken 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.

Another challenge for the year 2018 is to strengthen our resources oriented towards business development outside of the South Eastern European region.

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 2017, we managed to boost the share of proprietary solutions in the Group's revenue structure. Sales of ASEE's own software and services exceeded PLN 375 million, reflecting an increase by 8% in relation to the year 2016. Revenues from proprietary solutions accounted for 66% of the Group's total sales. We expect that during 2018 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 2015-2017, the Group was engaged in the execution of projects, among others, in Italy, Morocco, Egypt, Kazakhstan 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 2018. 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. 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 year 2017 brought an improvement in the segment's financial performance. The Management of ASEE believes that this is a sustainable trend and the Romanian

segment will deliver stronger results also in 2018 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 Slovenia, ASEE signed a significant contract for implementation of a core banking system and provision of maintenance and support services for Nova Kreditna Banka Maribor. 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 2018 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, we decided to formally separate this segment into an independent organizational entity. In practice, this means that after 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. The separated segment of Payment Solutions will operate under the brand of Payten.

During 2017, we managed to finalize the separation of this segment into an individual company called Payten in Croatia. At the beginning of 2018, we registered such division in Serbia and also established Payten company in Macedonia. Analogous division processes are currently underway in Romania, Turkey, as well as in Bosnia and Herzegovina. The remaining companies of ASEE will not be divided, and they will either be wholly incorporated into the structure of Payten or will continue to operate within their present organizational structures, depending on the dominant type of business in a given company. The transfer of resources of the Payment Solutions segment into the said separate entity is expected to be completed during the year 2018.

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.

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, Romania, Macedonia, Slovenia, and Montenegro. Apart from that, ASEE is consistently building its market share in 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. Moreover, the Company plans to invest in independent ATM networks in 2018, especially in Croatia and Serbia, including devices that support a currency exchange service (DCC).

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 is looking for new sources of revenue in the area of settlement of online payments. Leveraging on our experience gained with NestPay®, we developed Merchant Safe Unipay (MSU) solution which enables secure storing of credit card data of website customers, as well as Paratika solution which supports the settlement of online payments and is dedicated directly for retailers.

In August 2016, a Turkish subsidiary of ASEE obtained a license to carry out such activities. During 2017, we completed the first implementations of Paratika solution and began to provide regular services for our new customers. Currently, the local team efforts are focused on acquiring further clients and increasing the number of transactions processed, which should translate into stronger financial performance of this project.

The remaining two business lines do not yet have a significant share in the segment's sales structure. It is the Management's objective to expand our services related to processing and authorization of payment transactions as well as services related to mobile payments, including HCE technology, in order to increase their importance for the Payment Solutions segment. 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 authorization of payment transactions. In 2016 and 2017, ASEE signed several 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.

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. Below is the description of key products.

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 true omni-channel experience for bank's customers. 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 encompasses the touchpoint applications that account owners see, the administrative panel that the bankers see, and the middleware that connects the platform to all kind of backend systems. Digital Edge provides 24x7 services regardless of backend systems availability by queuing initiated transactions for later execution. As **Online Channels**, Digital Edge supports **Mobile**/Tablet, Digital Edge **Web**, ATM, Facebook, as well as **Chatbot** channel. Ultimately, Digital Edge fulfils the PSD2 requirements for strong customer authentication, transaction authorization, fraud monitoring, and provides open APIs for access to customer information and payment initiation.

Digital Origination

Digital Origination is a sales and underwriting system that provides full flexibility in offering of bank products, services and bundles, enabling short time to market and full control and transparency of origination processes for both assisted and self-service touchpoints. Thanks to its open architecture and brand new technology stack, it is strong accelerator of digital transformation, wide open for innovations and extensive third-party integrations. Digital Origination provides consistent user experience on all screen sizes – desktop, tablet and mobile.

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.

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 relationship with the bank. Customer Analytics is designed to boost marketing efforts, with campaigns and marketing offers as central points. Multi-channel approach allows integration of campaign offers through all banks' channels in a unified manner. Utilization of machine learning and predictive models gives our users a power not to rely solely on empirical expert knowledge, but to use predictions obtained through contemporary science methodologies.

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 ASEE 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.

Asseco Impairment Solution

Asseco Impairment Solution is sophisticated risk management tool for identification and segmentation of credit risk in accordance with IFRS 9 and calculation of expected credit losses. It is designed to facilitate easy transition to IFRS 9 and assist you in conducting necessary processes and generating reports in line with the regulatory requirements.

InACT

InACT® InACT® Enterprise Fraud Monitoring & Prevention Solution, a modular application that monitors and prevents multi-channel transactional and non-transactional fraud, misconduct attempts, operational faults and regulatory controls. Within InACT® there are two separate solutions such as InACT® External Fraud and Internal Fraud. InACT® External Fraud helps financial institutions protect their customers from multi-channel fraud attacks. InACT® Internal Fraud is designed to detect & prevent employee fraud, operational failures and compliance breaches.

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 advanced electronic signature and encryption based on Public Key Infrastructure SmartCard technology: PKI VAS, PKI CMS

PKI VAS (Validation Authority Suite) is a solution used to generate digital signature using certificates stored on PKI smartcards/USB keys and for encrypting documents shared over unsecure network (Internet, e-mail). The solution is easy to implement on existing web applications (i.e. Internet banking, web portals). PKI VAS can be used for secure authentication (login), transaction signature (one or more), and advanced electronic signature of documents (equal to handwritten signature). The solution supports all modern web browsers and it is operating system independent.

PKI CMS (Credential Management System) is a flexible solution designed to manage entities (users, servers/applications), devices, certificates and certification policies. PKI CMS supports issuing certificates on the hardware devices (e.g. smart cards or tokens), in files (software certificate issuance) or using CSR (Certificate Signing Request). PKI CMS has multi institution support, notification services, role dependent administration and audit logging. The solution supports all modern web browsers and it is operating system independent.

Solutions for remote advanced electronic signature based on Public Key Infrastructure certificates stored in cloud: PKI RDS

PKI RDS (Remote Digital Signature) is a browser and a device, an independent solution for creating advanced digital signatures using RDS certificates stored in secure environment (cloud), secured by means of using strong client authentication solutions. RDS enables creating advanced digital signature for clients without need for hardware PKI devices or additional installation on client side.

Services

Fully managed multichannel e-Banking service

Managed multichannel e-Banking is a 24x7 on-line banking service which can be hosted in different countries in the SEE region. It allows retail and corporate bank's customers to access bank's data and services from any place by usage 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

24/7 Service Support Center

Multivendor solutions for ATMs and POS terminals

Our service network includes over 100 service centers. In the SEE region, we maintain over 9,000 ATM, ATS and KIOSK terminals and 200,000 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 focuses 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.

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 payment card business. The processing offer includes: **transaction processing & switching services, card issuing & hosting services, ATM & POS acquiring services, fraud management, and contact center 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 B2C online card payment platform that handles payments between merchants and acquirer banks. 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.

Trides

Trides is a complete 3D Secure solution certified according to Verified by Visa™, MasterCard SecureCode™, American Express SafeKey™, and Diners Club ProtectBuy™ programs. Trides package includes Trides ACS product targeted to card issuing institutions to provide their customers with ultimate fraud protection during online payment. By using Trides MPI online merchants can initiate online payment transactions secured with 3D Secure protocol which ensures liability shift to issuer institution in case of online card fraud.

ATM software

TermHost software solution provides the implementation of Value Added Services on top of the standard ATM transaction set. This results in generating new revenue streams on these terminals for the bank, and completely changes customer experience of the cardholder. By using TermHost and its modules banks seamlessly integrate ATM terminal into their omni-channel world, making an ATM modern point of accessing various bank functionalities. This way ATM can offer transactions that previously was not possible using rigid outdated NDC ATM protocol. Currently we offer following functionalities using various Term Host modules: Campaigns, Personalised User Experience, mCash - withdrawal using mobile phone, ON US transactions authorised by bank instead of their ATM processing host, and many others.

POS software

PayPro is an application for EFT POS terminal devices that are used on merchant locations for acceptance of payment cards, Visa, MasterCard, American Express and others. It supports different models and vendors of terminals that gives to the banks and merchants common user experience on different devices and reduces time to market. We continuously follow mandates of payments authorities and improve its functionalities in order to provide customers service that is on highest security level.

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.

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.

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.

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 OF THE COMPANY AND THE GROUP

ASEE S.A. earns revenues from dividends received from its subsidiaries, as well as from the sale of business and technical support services to its subsidiaries. Such revenues are generated in countries where the Company holds its investments.

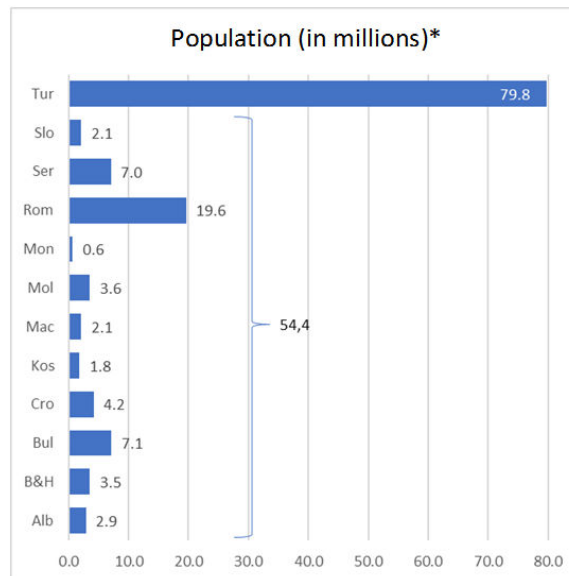
ASEE S.A. also generates revenues from the sale of services and software for voice automation systems, as well as from the sale of software, services and hardware to the banking sector. Sales of IT services and software are made primarily in the Polish market.

Asseco South Eastern Europe Group 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.

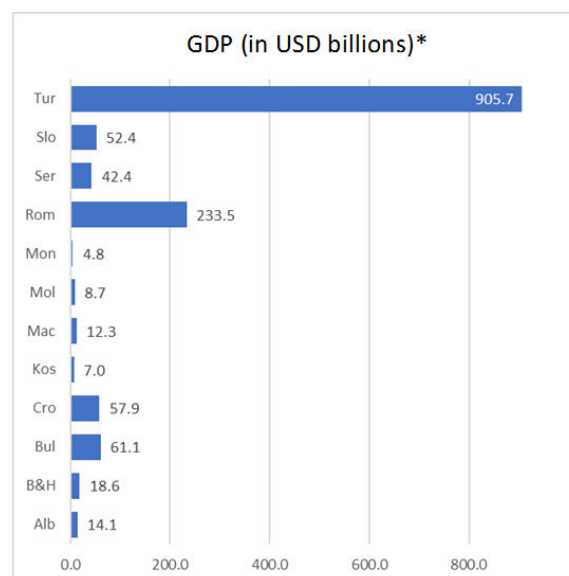
Four of the region's countries, namely Slovenia, Romania, Bulgaria and Croatia are member states of the European Union. Other countries are at various stages of applying for membership in the European Union.

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 scale of business in Slovenia and in 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 2017) and annual GDP (in October 2017) of each country.

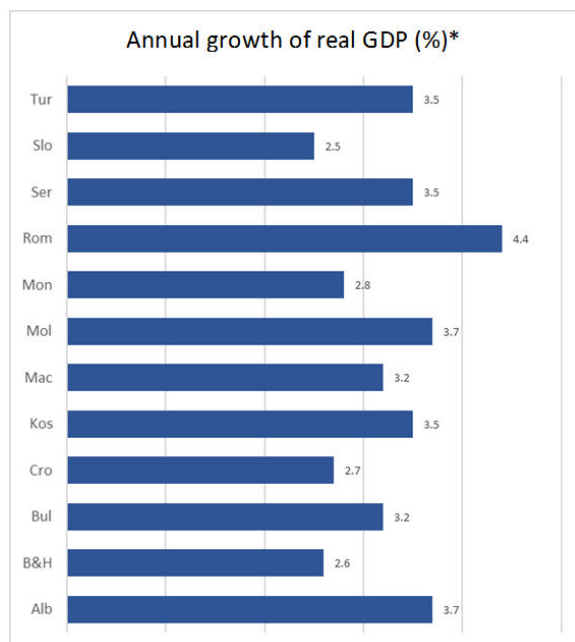


*Source: Eurostat, data as at 1 January 2017



*Source: International Monetary Fund

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

The annual changes in real GDP (data from October 2017) indicate the improving economic situation in the countries of South Eastern Europe. GDP growth in all countries of the region exceeds 2.5 percentage points annually, and in the region's most dynamic economies it approaches or even exceeds 4 percentage points per year. We are pleased with the expectations for a high rate of GDP growth in the countries where ASEE conducts its major operations, including Romania, Serbia, Turkey, and Macedonia. In the last two of these countries, and especially in Turkey, political turmoil hindered long-term business planning and consequently had a negative impact on the level of IT investments in recent years. 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 2017. The analysis of order backlog for 2018 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 2017. The breakdown of our sales revenues by the client's location is as follows: Serbia – 25%, Romania – 23%, Croatia – 15%, Turkey – 9%, Macedonia – 8%, other South Eastern European countries – 16%, and markets outside that region (including Poland) – 4%.

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 2015-2017, the Group was engaged in the execution of projects, among others, in Italy, Morocco, Egypt, Kazakhstan 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 2018.

During the year ended 31 December 2017, 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 COMPANY AND THE GROUP

Agreements significant for the Group's operations that were signed during 2017 are presented below in a breakdown to individual operating segments and quarters:

Banking Solutions:

- Implementation of Experience solution for Halkbank in Macedonia;
- Upgrading of Absolut system for a Romanian branch of one of the international banks;
- Implementation of Loan origination module for a bank in Croatia;
- Implementation of an anti-money laundering system at one of the international banks in Croatia;
- Implementation of SxS authentication solution along with mToken system for a bank in Kazakhstan;
- Implementation of PKI VAS authentication solution for a bank in Croatia;
- Implementation of Jimba mobile solution at a service center of an international banking group;
- Preparation and implementation of a regulatory reporting system for a bank in Serbia;
- Implementation of BAPO Payment module at a company offering payment solutions.
- Signing a contract with Nova Kreditna Banka Maribor in Slovenia for the implementation and maintenance of an integrated core banking system; assuming the execution of the whole implementation project, sale of licenses as well as provision of maintenance services for the next 5 years, the contract's estimated value shall reach EUR 9.4 million;
- Implementation of iWallet solution for a telecommunications company in Serbia;
- Support in the implementation of IFRS 9 at banks in Montenegro and Romania;
- Installation of PUB CMS module at an international bank in Montenegro;
- Implementation of Tezauri Basel III solution for two banks in Serbia;
- Implementation of SxS authentication solution for an IT company that supports an international banking group;
- Implementation of ne functionalities for Bapo and Experience solution at a bank in Serbia;
- Implementation of Absolut banking system for a Romanian branch of an international bank;
- Installation of Digital Edge solution at one of regional banks in Romania;
- Implementation of IFRS 9 solution for two Romanian banks;

- Installation of SxS authentication solution for banks in Romania and Croatia;
- Implementation of iBank system at one of the banks in Serbia;
- Implementation of SEPA direct debit solution for a bank in Croatia;
- Implementation of PFM solution for a banking group in Italy;
- Further deployments of PKI and Jimba solutions for banks in Croatia;
- Installation of AML solution at an international bank in Macedonia.

Payment Solutions:

- Delivery of ATMs for Raiffeisen and Zagrebacka banks in Croatia;
- Contract for maintenance of ATMs with ING Bank in Romania;
- Contract for processing of payment transactions with a bank in Serbia;
- Implementation of Nestpay solution for a payments institution in Turkey;
- Implementation of MSU solution at a Turkish company dealing with online car rental;
- Long-term contract with Addiko Bank for outsourcing of ATMs in five countries of the region (Serbia, Croatia, Montenegro, Bosnia and Herzegovina, and Slovenia);
- Implementation of MSU solution for a wholesale distributor and a cosmetics company in Turkey;
- Delivery of additional ATMs for Erste Bank in Croatia;
- Sale of POS terminals to NLB Bank in Slovenia;
- Signing a contract for outsourcing of ATMs with one of the banks in Croatia;
- Delivery of ATMs supporting the CashIn function for NLB Bank in Kosovo;
- Implementation of MSU solution for a power industry company and a provider of car location services in Turkey;
- Contract for replacement of 2,500 POS terminals at Erste Card Club in Romania;
- Delivery of ATMs for Societe Generale Group in Romania;
- Implementation of KomBank Ecosystem – e/m Commerce Instant Payment solution for a bank in Serbia;
- Contract for outsourcing POS terminals and delivery of ATMs for one of the banks in Macedonia;
- Deployment of NestPay solution at a bank in Kosovo.

Systems Integration:

- Implementation of LeaseFlex system at three leasing companies in Turkey;
- Implementation of Dynatrace system at three power industry companies and ERP company in Turkey;
- Development and implementation of a software solution for the Public Debt Department in the Ministry of Finance in Serbia;
- Implementation of BPM system at an international bank in Romania;
- Installation of Contact Center Live system for a power industry company in Macedonia;
- Implementation of LeaseFlex solution at a leasing company in Turkey;
- Preparation and implementation of a tailor-made software solution and delivery of infrastructure for Electric Power Industry Enterprise in Serbia;
- Implementation of Dynatrace solution for an insurance company in Turkey;
- Delivery of IT hardware for the Tax Administration in Serbia;
- Sale of Microsoft software for companies in Romania;
- Implementation of Fidelity system at a bank in Turkey;
- Sale of Dynatrace solution to a municipal office, airline and an e-commerce company in Turkey;
- Implementation of Java BPM solution for three customers in Romania (in the sectors of banking and new technologies);
- Implementation of proprietary ASEE BPS solution and a third-party support solution for M:tel company in Serbia;
- Preparation and implementation of a tailor-made software solution for managing capital gains at the Tax Administration in Serbia;
- Implementation of Live solution for a telecommunications operator in Croatia;
- Development and implementation of a system for management of IT security incidents for one of the ministries in Serbia;
- Supply of Microsoft licenses to four customers in Romania;
- Sale of Dynatrace APM solution to four customers in Turkey;
- Sale of LeaseFlex system for two customers in Turkey;
- Sale of additional modules of Fidelity software for two customers in Turkey.

10. INFORMATION ON GEOGRAPHICAL STRUCTURE OF FINANCIAL RESULTS

For the year ended 31 December 2017 in thousands of PLN	Albania	Bosnia	Bulgaria	Croatia	Montenegro	Kosovo	Macedonia	Poland	Romania	Serbia	Slovenia	Turkey	Total
Sales revenues	1,236	17,580	4,482	99,219	10,405	12,199	46,458	7,306	132,341	163,216	23,868	52,549	570,859
Cost of sales (-)	(761)	(10,574)	(3,733)	(69,290)	(5,846)	(10,258)	(29,228)	(4,988)	(111,577)	(123,407)	(20,351)	(37,033)	(427,046)
Gross profit on sales	475	7,006	749	29,929	4,559	1,941	17,230	2,318	20,764	39,809	3,517	15,516	143,813
Selling costs (-)	(66)	(775)	(263)	(6,629)	(219)	(366)	(2,017)	(675)	(7,477)	(10,392)	(314)	(5,903)	(35,096)
General and administrative expenses (-)	(237)	(1,714)	(984)	(8,115)	(905)	(947)	(3,514)	(183)	(7,068)	(10,109)	(1,034)	(7,788)	(42,598)
Net profit/(loss) on sales	172	4,517	(498)	15,185	3,435	628	11,699	1,460	6,219	19,308	2,169	1,825	66,119
Other operating income	-	(55)	33	347	23	38	162	283	151	57	9	245	1,293
Other operating expenses	(2)	77	(74)	(286)	(8)	(70)	(49)	(187)	(57)	(529)	(4)	(357)	(1,546)
Share of profits of associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating profit/(loss)	170	4,539	(539)	15,246	3,450	596	11,812	1,556	6,313	18,836	2,174	1,713	65,866

For the year ended 31 December 2017 in thousands of EUR	Albania	Bosnia	Bulgaria	Croatia	Montenegro	Kosovo	Macedonia	Poland	Romania	Serbia	Slovenia	Turkey	Total
Sales revenues	291	4,142	1,056	23,375	2,451	2,874	10,945	1,721	31,178	38,452	5,623	12,379	134,487
Cost of sales (-)	(179)	(2,491)	(879)	(16,324)	(1,377)	(2,417)	(6,886)	(1,175)	(26,286)	(29,073)	(4,794)	(8,725)	(100,606)
Gross profit on sales	112	1,651	177	7,051	1,074	457	4,059	546	4,892	9,379	829	3,654	33,881
Selling costs (-)	(16)	(183)	(62)	(1,562)	(52)	(86)	(475)	(159)	(1,761)	(2,448)	(74)	(1,390)	(8,268)
General and administrative expenses (-)	(56)	(404)	(232)	(1,912)	(213)	(223)	(828)	(43)	(1,665)	(2,382)	(244)	(1,834)	(10,036)
Net profit/(loss) on sales	40	1,064	(117)	3,577	809	148	2,756	344	1,466	4,549	511	430	15,577
Other operating income	-	(13)	8	82	5	9	38	67	36	13	2	57	304
Other operating expenses	-	18	(17)	(67)	(2)	(16)	(12)	(44)	(13)	(125)	(1)	(85)	(364)
Share of profits of associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating profit/(loss)	40	1,069	(126)	3,592	812	141	2,782	367	1,489	4,437	512	402	15,517

The above figures have been converted at the average exchange rate for the period from 1 January 2017 to 31 December 2017: EUR 1 = PLN 4.2447

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

11. KEY ECONOMIC AND FINANCIAL FIGURES OF THE COMPANY

Financial results for 2017

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	PLN'000	PLN'000
Dividend income	30,527	5,283
Revenues from sales of services	16,527	15,804
Cost of sales (-)	(12,232)	(9,859)
Selling costs (-)	(3,256)	(3,390)
General and administrative expenses (-)	(61)	(68)
Operating profit	31,565	7,828
Net profit for the reporting period	19,831	19

Dividend income recognized by ASEE S.A. in 2017 amounted to PLN 30,527 thousand, as compared with PLN 5,283 thousand in 2016. Dividend income in 2016 was significantly lower than in 2017, because in the previous year our operating companies needed to rebuild their cash positions, following their hefty dividend distributions that were made in 2015.

Structure of the statement of financial position of ASEE S.A.

Structure of assets	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	PLN'000	PLN'000	%	%
Non-current assets	594,963	606,970	93%	94%
Property, plant and equipment, and intangible assets	6,060	5,999	1%	1%
Investments in subsidiaries	571,101	580,101	90%	90%
Long-term financial assets	14,173	14,478	2%	2%
Other	3,629	6,392	1%	1%
Current assets	42,319	38,308	7%	6%
Trade receivables and prepayments	2,818	2,469	0%	0%
Cash and cash deposits	26,074	11,208	4%	2%
Short-term financial assets	10,841	22,910	2%	4%
Other	2,586	1,721	0%	0%
TOTAL ASSETS	637,282	645,278	100%	100%

The structure of assets of ASEE S.A. is dominated by investments in subsidiaries. As at 31 December 2017, the value of such investments equalled PLN 571,101 thousand and was lower than in the previous year. The value of investments in subsidiaries changed due to recognition of an impairment write-down on our investment in ASEE Kosovo in the amount of PLN 9,000 thousand. The share of investments in subsidiaries in our total assets has not changed in comparison with the prior year.

The amount of cash and cash equivalents increased by PLN 14,866 thousand as a result of receiving dividends from our subsidiaries. The share of financial assets in the balance sheet structure decreased due to the repayment of a large portion of loans that were previously granted to our

subsidiaries. A description of loans granted is provided in item 21 of this report.

Structure of equity and liabilities	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	PLN'000	PLN'000	%	%
Equity	620,843	625,393	98%	97%
Non-current liabilities	9,489	12,025	1%	2%
Current liabilities	6,950	7,860	1%	1%
TOTAL EQUITY AND LIABILITIES	637,282	645,278	100%	100%

The amount of equity recorded a slight decrease in relation to the previous year; however, its share in the total equity and liabilities increased. The structure of equity and liabilities changed following a decrease in non-current liabilities by PLN 2,536 thousand, which represented mainly our liabilities under a bank loan. This bank loan has been described in explanatory note 20 to the Company's annual financial statements for 2017.

Current liabilities decreased as they include a short-term portion of the above-mentioned bank loan.

Structure of the statement of cash flows

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	PLN'000	PLN'000
Net cash provided by (used in) operating activities	30,449	9,475
Net cash provided by (used in) investing activities	10,664	(9,167)
Net cash provided by (used in) financing activities	(26,278)	(22,028)
Net change in cash and cash equivalents	14,835	(21,720)
Cash and cash equivalents at the end of period	26,074	11,208

In 2017, cash flows from operating activities comprised primarily dividends received from our subsidiaries in the amount of PLN 27,878 thousand, as well as proceeds from the sale of shares in Sigma Turkey amounting to PLN 1,701 thousand (presented under operating activities because ASEE S.A. operates as a holding company).

Cash flows from our investing activities were related primarily to proceeds and outlays under loans granted to ASEE Croatia, ASEE B&H, ASEE Turkey, ASEE Slovenia, ASEE Serbia, and ASEE Montenegro (net cash flows of PLN 10,626 thousand), as well as interest received on loans granted (PLN 751 thousand).

Whereas, cash flows from financing activities reflect basically the dividend payment to shareholders of ASEE S.A. (PLN 24,909 thousand).

Analysis of financial ratios

Profitability ratios

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	%	%
Return on equity (ROE)	3.18%	0.00%
Return on assets (ROA)	3.09%	0.00%

The above ratios have been computed using the following formulas:
 Return on equity (ROE) = net profit for the reporting period / average annual equity
 Return on assets (ROA) = net profit for the reporting period / average annual assets

Both return on equity and return on assets metrics improved in 2017 as compared to those reported for 2016, following an increase in net profit for the reporting period which resulted from a higher amount of dividends received from our subsidiaries.

Liquidity ratios

	31 Dec. 2017	31 Dec. 2016
Working capital	35,369	30,448
Current liquidity ratio	6.09	4.87
Quick liquidity ratio	6.03	4.76
Absolute liquidity ratio	3.75	1.43

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 = (bonds and securities held to maturity + cash and short-term bank deposits) / current liabilities

As at 31 December 2017, our working capital as well as liquidity ratios increased in comparison to those reported at the end of the previous year primarily due to an increase in cash and short-term bank deposits as a result of receiving dividends from our subsidiaries.

12. KEY ECONOMIC AND FINANCIAL FIGURES OF ASEE GROUP AND SIGNIFICANT EVENTS WITH IMPACT ON BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE OF THE GROUP

	3 months ended 31 Dec. 2017	3 months ended 31 Dec. 2016	Change %	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016	Change %
PLN'000	(unaudited)	(unaudited)		(audited)	(audited)	
Sales revenues	160,228	179,424	-11%	570,859	570,634	0%
Gross profit on sales	43,296	43,632	-1%	143,813	136,349	5%
Net profit on sales	22,171	20,717	7%	66,119	55,890	18%
Operating profit	21,815	20,327	7%	65,866	56,780	16%
EBITDA	32,857	30,340	8%	106,478	94,030	13%
Net profit for the reporting period	18,152	20,292	-11%	55,009	51,548	7%
Net profit attributable to Shareholders of the Parent Company	18,063	20,176	-10%	54,648	51,468	6%

	3 months ended 31 Dec. 2017	3 months ended 31 Dec. 2016	Change %	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016	Change %
EUR'000	(unaudited)	(unaudited)		(audited)	(audited)	
Sales revenues	38,019	40,864	-7%	134,487	130,411	3%
Gross profit on sales	10,267	9,938	3%	33,881	31,161	9%
Net profit on sales	5,252	4,722	11%	15,577	12,773	22%
Operating profit	5,168	4,632	12%	15,517	12,976	20%
EBITDA	7,789	6,911	13%	25,085	21,489	17%
Net profit for the reporting period	4,300	4,627	-7%	12,959	11,781	10%
Net profit attributable to Shareholders of the Parent Company	4,279	4,599	-7%	12,874	11,762	9%

In the fourth quarter of 2017, ASEE Group once again improved its financial results in relation to the comparable period of the previous year. Despite weaker sales that amounted to EUR 38 million (a decrease by 7%), the Company recorded an operating profit of nearly EUR 5.2 million (an increase by 12%) and EBITDA at the level of EUR 7.8 million (an increase by 13%).

Sales revenues generated by the Banking Solutions segment in the fourth quarter of 2017 reached almost EUR 11.2 million, reflecting an increase by EUR 0.2 million or 2%. In the same period, operating profit of this segment amounted to almost EUR 1.6 million, decreasing by EUR 1.4 million or 47% in relation to the fourth quarter of 2016. The decline in operating profit was primarily

observed in ASEE companies in Croatia, whose financial results for the fourth quarter of 2016 were disproportionately high due to uneven recognition of the percentage of completion of ongoing projects in individual quarters of the year, which was dictated by formal reasons. During 2017, the recognition of revenues was more even and thus the segment's results in Croatia for the entire 2017 were higher than in the previous year, despite a considerably worse fourth quarter. The fourth quarter operating results of the Banking Solutions segment dropped also in ASEE Turkey, due to recognition of an unplanned write-down of capitalized costs of software development, in the amount of almost EUR 0.7 million.

Revenues of the Payment Solutions segment in the fourth quarter of 2017 amounted to nearly EUR 13.4 million, increasing by EUR 0.6 million in relation to the comparable period last year. Stronger sales were achieved mainly by the business line responsible for e-Commerce, which translated into a higher operating profit of this section of the segment. Whereas, lower operating costs helped improve the operating result of the business line engaged in maintenance of ATMs and POS terminals. In total, the segment's operating profit for the fourth quarter of 2017 amounted to EUR 1.8 million, increasing by EUR 0.6 million or 51% as compared to the fourth quarter of the prior year.

In the fourth quarter of 2017, the Systems Integration segment generated EUR 13.4 million in sales, suffering a decline by EUR 3.6 million or 21%. Weaker revenues were recorded by the segment's business line dealing with delivery of infrastructure and integration services, primarily in

Romania and Macedonia. Operating profit reported by this segment for the last three months of 2017 reached almost EUR 1.9 million, increasing by nearly EUR 1.3 million in comparison to the corresponding period last year. The segment's results improved owing to more efficient project management as well as cost restructuring efforts undertaken by the business line engaged in the provision of our proprietary software in Serbia and Turkey.

Presented below are the most important events that have affected the financial results of ASEE Group in the entire 2017.

Sales revenues

Total sales revenues generated by ASEE Group in 2017 reached nearly PLN 570.9 million, remaining at a similar level as in the previous year. If presented in euros, our sales amounted to EUR 96 million, growing by EUR 4.1 million or 3%.

Sales revenues by segments

	3 months ended 31 Dec. 2017	3 months ended 31 Dec. 2016	Change %	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016	Change %
PLN'000	(unaudited)	(unaudited)	%	(audited)	(audited)	%
Banking Solutions	47,040	48,156	-2%	152,316	146,277	4%
Payment Solutions	56,583	56,499	0%	211,907	199,392	6%
Systems Integration	56,605	74,769	-24%	206,636	224,965	-8%
	160,228	179,424	-11%	570,859	570,634	0%

	3 months ended 31 Dec. 2017	3 months ended 31 Dec. 2016	Change %	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016	Change %
EUR'000	(unaudited)	(unaudited)	%	(audited)	(audited)	%
Banking Solutions	11,151	10,970	2%	35,883	33,430	7%
Payment Solutions	13,433	12,860	5%	49,923	45,568	10%
Systems Integration	13,435	17,034	-21%	48,681	51,413	-5%
	38,019	40,864	-7%	134,487	130,411	3%

The Banking Solutions segment generated sales of EUR 35.9 million in 2017, recording an increase by EUR 2.5 million or 7% in relation to the previous year. Higher revenues were achieved, among others, in Serbia, Croatia and Romania. Moreover, the segment's revenues also include the full-year sales generated in 2017 by EMON, a provider of e-banking solutions in Montenegro (EUR 0.9 million). In 2016, ASEE Group consolidated the sales of EMON for the last two months only (EUR 0.2 million).

Revenues of the Payment Solutions segment reached EUR 49.9 million in 2017, increasing by EUR 4.4 million or 10% in relation to the previous year. Higher sales were achieved mainly in the business of physical payments processing (an increase by over EUR 3 million). In 2017, revenues from handling of physical payments increased most

dynamically in Romania (by EUR 2 million) where we expanded the scope of outsourcing contracts for payment services and also made deliveries of POS terminals for customers in the traditional model of infrastructure maintenance, as well as in Croatia (by EUR 1.5 million) and in Kosovo (by EUR 0.6 million) where we completed a number of deliveries of ATMs. At the same time, our operations in Serbia, Macedonia, and Bulgaria reported weaker revenues from handling of physical payments. The segment's sales increased by another EUR 0.9 million from processing and authorization of payment transactions. Such improvement was achieved by signing new contracts in this business line, but also due to the fact that Chip Card, a provider of payment processing and authentication services, has been consolidated by ASEE Group only since April 2016, making a smaller contribution to the amount of sales in the

comparable period. In 2017, revenues from processing of online payments increased by EUR 250 thousand or 4% in comparison to the prior year.

Sales generated by the Systems Integration segment in 2017 amounted to EUR 48.7 million, showing a decrease by EUR 2.7 million or 5% if compared with the previous year. A decline in sales was observed in the supply of infrastructure and integration services (by EUR 3.5 million), while revenues from proprietary software improved by EUR 0.8 million. Weaker sales were reported primarily by ASEE Macedonia (a decrease by over EUR 1.5 million), but also by our companies operating in Serbia, Kosovo and Romania. Whereas, higher revenues from own software solutions were achieved mainly in Serbia (an increase by EUR 1.2 million).

Stronger sales of the Banking Solutions segment as well as growing revenues from own services and solutions in the segments of Payment Solutions and Systems Integration altogether resulted in a higher share of our proprietary products and services in the revenue structure of ASEE Group. In 2017, such share equalled 65.8% as compared with the level of 60.9% observed in the previous year.

Gross profit on sales

The above-mentioned growth in sales revenues by EUR 4 million in 2017 was accompanied by an increase in the cost of sales by almost EUR 1.4 million, as a result of which our gross profit on sales reached EUR 33.9 million, which was EUR 2.7 million or 9% more than in 2016.

Whereas, our production costs aggregated at EUR 52.7 million in 2017 and were higher by EUR 4.9 million or 10% than in the previous year. Concurrently, the cost of goods, materials and third-party services sold (COGS) dropped by EUR 3.5 million in 2017. The decline in the cost of goods, materials and third-party services sold, and the simultaneous increase in production costs are both reflected in changes to our revenue structure of proprietary and third-party solutions as described above.

Net profit on sales

Our consolidated net profit on sales for 2017 improved by EUR 2.8 million as a cumulative effect of an increase in gross profit on sales by EUR 2.7 million, decrease in selling expenses by over EUR 0.4 million or 5%, and an increase in general and administrative expenses by almost EUR 0.4 million or 4%.

Such improvement in the consolidated net profit on sales of ASEE Group for 2017 was achieved primarily in the Systems Integration segment, where cost restructuring efforts and more efficient project management resulted in a significant increase of that profit by almost EUR 2.4 million, despite lower sales revenues. Net profit on sales of the Payment Solutions segment also improved by EUR 0.6 million, chiefly in the business lines engaged in processing of payment card transactions as well as in maintenance of ATMs and POS terminals. Whereas, net profit on sales achieved by the Banking Solutions segment in 2017 was by EUR 0.2 million or 4% weaker than in the previous year. 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. 2017 (unaudited)	3 months ended 31 Dec. 2016 (unaudited)	Change % %	Year ended 31 Dec. 2017 (audited)	Year ended 31 Dec. 2016 (audited)	Change % %
PLN'000						
Banking Solutions	6,609	13,038	-49%	20,136	21,595	-7%
Payment Solutions	7,675	5,321	44%	29,804	28,002	6%
Systems Integration	7,887	2,358	235%	16,179	6,293	157%
Net profit on sales	22,171	20,717	7%	66,119	55,890	18%

	3 months ended 31 Dec. 2017 (unaudited)	3 months ended 31 Dec. 2016 (unaudited)	Change % %	Year ended 31 Dec. 2017 (audited)	Year ended 31 Dec. 2016 (audited)	Change % %
EUR'000						
Banking Solutions	1,567	2,976	-47%	4,745	4,935	-4%
Payment Solutions	1,823	1,208	51%	7,021	6,400	10%
Systems Integration	1,862	538	246%	3,811	1,438	165%
Net profit on sales	5,252	4,722	11%	15,577	12,773	22%

Operating profit

Operating profit of ASEE Group for 2017 reached EUR 15.5 million, increasing by EUR 2.5 million or 20% in relation to the comparable period last year.

Operating profit of the Banking Solutions segment for 2017 amounted to EUR 4.7 million, reflecting a decrease by EUR 0.2 million or 4% in relation to the previous year. In 2017, this segment's results improved, among others, in Croatia where we carried out new implementations of mobile solutions, as well as in Romania where we expanded the scale of our business while incurring only slightly higher costs. At the same time, the segment's performance deteriorated in Turkey due to the falling sales of InACT, our financial fraud prevention solution. As a consequence of lower sales and weaker future prospects for InACT, the Management decided to write down the whole amount of capitalized development costs of this solution, which further reduced the segment's operating profit. Our capitalized costs incurred for the development of banking software were reviewed also in Serbia, as a result of which we recognized impairment write-downs on several selected modules with an uncertain sales outlook. In effect of such unplanned write-downs, the results of this segment in ASEE Serbia deteriorated in comparison with the prior year.

Operating profit earned by the Payment Solutions segment in 2017 amounted to EUR 7 million, growing by over EUR 0.6 million or 10% above the year-ago level. Stronger results were achieved primarily from processing and authorization of payment card transactions in Serbia, as well as from maintenance of ATMs and POS terminals in Croatia and in Bosnia and Herzegovina. Whereas, the segment's result from the settlement of online payments increased by almost EUR 0.1 million or 5% as compared with 2016.

In 2017, the improvement in ASEE Group's operating performance was achieved mostly owing to the Systems Integration segment. The segment's operating profit for 2017 amounted to EUR 3.8 million, reflecting an increase by nearly EUR 2.4 million over the previous year. Such progress was achieved by the business line engaged in the sale of our own solutions. This was accomplished predominantly by more efficient management of long-term projects in Serbia, as well as owing to the reorganization of our proprietary solutions team in Turkey. Whereas, the business line dealing with delivery of infrastructure and integration services, reported slightly weaker operating earnings for 2017 because its sales were lower than a year ago.

EBITDA

PLN'000	Year ended 31 Dec. 2017 (audited)	Year ended 31 Dec. 2016 (audited)	Change
Banking Solutions	26,227	28,785	-9%
Payment Solutions	60,219	53,490	13%
Systems Integration	20,032	11,755	70%
	106,478	94,030	13%

EUR'000	Year ended 31 Dec. 2017 (audited)	Year ended 31 Dec. 2016 (audited)	Change
Banking Solutions	6,179	6,578	-6%
Payment Solutions	14,187	12,225	16%
Systems Integration	4,719	2,686	76%
	25,085	21,489	17%

Consolidated EBITDA of ASEE Group for 2017 reached EUR 25.1 million, improving by more than EUR 3.6 million or 17% in relation to the previous year. The Banking Solutions segment generated EUR 6.2 million in EBITDA, recording a decline by EUR 0.4 million or 6%. EBITDA earned by the Payment Solutions segment amounted to almost EUR 14.2 million, increasing by EUR 2 million or 16%; whereas, in the Systems Integration segment it equalled EUR 4.7 million, improving by EUR 2 million or 76%. 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 2017 amounted to almost EUR 13 million and was higher by EUR 1.2 million or 10% than in the previous year.

The Group's net result on financial operations equalled EUR 365 thousand in 2017, as compared with EUR 957 thousand reported last year. However, it should be noted that the 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 the recognition of a financial income of PLN 4.1 million (EUR 942 thousand). This operation was a one-time event. Excluding the effect of revaluation of our shareholding in E-Mon, the result on financial operations earned in 2017 would be EUR 350 thousand higher than in the previous year. Such improvement was achieved mainly due to a better result on foreign exchange differences, including the valuation of hedging instruments.

In 2017, our income tax expense amounted to EUR 2.9 million (effective tax rate of 18.4%) as compared with almost EUR 2.2 million incurred in the previous year (effective tax rate of 15.5%). 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 the year 2017, the holding company received dividends among others from Macedonia and Serbia (amounting in total to EUR 5.5 million), which caused the obligation to pay withholding tax as well as income tax in Poland, thereby increasing our effective tax rate. During 2016, the holding company received dividends only

from its operations located in EU countries and Bosnia and Herzegovina (amounting to EUR 0.2 million), thus our effective tax rate was lower. Excluding the taxes related to dividends, our effective tax rate for the year 2017 remained at a similar level as in 2016.

Analysis of financial ratios

	3 months ended 31 Dec. 2017 (unaudited)	3 months ended 31 Dec. 2016 (unaudited)	Year ended 31 Dec. 2017 (audited)	Year ended 31 Dec. 2016 (audited)
Gross profit margin	27.0%	24.3%	25.2%	23.9%
EBITDA margin	20.5%	16.9%	18.7%	16.5%
Operating profit margin	13.6%	11.3%	11.5%	10.0%
Net profit margin	11.3%	11.3%	9.6%	9.0%
Return on equity (ROE)			7.5%	7.2%
Return on assets (ROA)			5.9%	5.7%

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 2017, gross profit margin equalled 25.2%, increasing by 1.3 percentage points in relation to the previous year. This increase in gross profit margin is attributable to the rising profitability and higher share of own solutions in the total sales of ASEE Group, which was partially offset by lower margins realized on the resale of infrastructure in the Payment Solutions segment.

Stronger profitability of own solutions contributed to an increase in further margins of profit. EBITDA margin improved from 16.5% in 2016 to the level of 18.7%. At the same time, operating profit margin increased from 10.0% to 11.5%.

Such improvement in the operating margin helped enhance our net profit margin for the reporting period, despite a lower result on financial operations and a higher income tax expense. Net profit margin improved from 9.0% in 2016 to the level of 9.6%.

Stronger financial performance of ASEE Group during 2017 contributed to the increase of ROA and ROE ratios in this period. Return on equity for the trailing 12 months ended 31 December 2017 equalled 7.5%, increasing by 0.3 percentage points; whereas, return on assets reached the level of 5.9%, increasing by 0.2 percentage points.

	31 Dec. 2017 (audited)	31 Dec. 2016 (audited)
Working capital (in thousands of PLN)	118,177	118,752
Current liquidity ratio	1.7	1.6
Quick liquidity ratio	1.5	1.4
Absolute liquidity ratio	0.7	0.7

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

Our working capital reported as at 31 December 2017 decreased by PLN 0.6 million in comparison with the end of December 2016. Such a slight change resulted from a decline in total current assets by nearly PLN 16 million, which was accompanied by a decrease in current liabilities by over PLN 15 million.

The lower value of current assets is primarily the effect of decreases in trade receivables (by PLN 6.3 million), in cash and short-term financial assets (by PLN 6.1 million), and in prepayments (by PLN 4.3 million). Whereas, current liabilities dropped mainly due to the lower amounts of trade payables (by PLN 11.1 million) and liabilities arising from valuation of IT contracts (by PLN 3.7 million).

Our liquidity ratios as at the end of December 2017 were slightly higher than as at the end of the previous year and they still remain at safe levels.

Analysis of debt

	31 Dec. 2017	31 Dec. 2016
	(audited)	(audited)
Total debt ratio	21.7%	22.6%
Debt / equity ratio	6.3%	6.1%
Debt / (debt + equity) ratio	5.9%	5.7%

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 total debt ratio decreased from 22.6% reported as at the end of 2016 to the level of 21.7% as at 31 December 2017. Such change is primarily attributable to decreases in trade payables (by PLN 11.1 million) and liabilities arising from valuation of IT contracts (by PLN 3.7 million). Our interest-bearing liabilities disclosed at the end of December 2017 increased slightly as compared to their level at the end of 2016, causing a minor increase in the ratios of debt to equity and debt to total liabilities. We repaid our historical liabilities on a timely basis, while incurring new debt intended to finance our outlays for infrastructure to be used in subsequent projects of outsourcing of payment services.

Structure of the consolidated statement of financial position

Structure of assets

	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	PLN'000	PLN'000	%	%
Non-current assets	630,553	642,938	69%	68%
Property, plant and equipment	131,958	102,161	14%	11%
Intangible assets	17,946	30,180	2%	3%
Goodwill	475,360	505,634	52%	53%
Other	5,289	4,963	1%	1%
Current assets	287,762	303,510	31%	32%
Inventories	24,792	23,474	3%	2%
Trade receivables and prepayments	130,201	140,878	14%	15%
Receivables from valuation of IT contracts	12,025	11,722	1%	1%
Short-term financial assets	792	3,090	0%	0%
Cash and cash deposits	115,712	119,546	13%	13%
Other	4,240	4,800	0%	1%
TOTAL ASSETS	918,315	946,448	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 2017, goodwill decreased by PLN 30.3 million solely by virtue of foreign currency translation differences.

The increase in property, plant and equipment by PLN 30 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. Such considerable growth during 2017 was a result of signing many new outsourcing contracts, including a pan-regional contract with Addiko Bank which assigned ASEE with management of the bank's ATMs network in five countries of the region.

Intangible assets decreased by PLN 12.2 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 2017, the value of current assets was lower by PLN 15.7 million than at the end of the previous year. Total current assets declined mainly due to the lower amount of trade receivables by PLN 6.3 million, and a decrease in short-term financial assets and cash by a total of PLN 6.1 million.

Structure of equity and liabilities

	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	PLN'000	PLN'000	%	%
Equity	719,312	732,411	78%	77%
Non-current liabilities	29,418	29,279	3%	3%
Interest-bearing bank loans	22,281	21,807	2%	2%
Other	7,137	7,472	1%	1%
Current liabilities	169,585	184,758	18%	20%
Interest-bearing bank loans	22,710	22,789	2%	2%
Trade payables and accruals	69,700	82,289	8%	9%
Deferred income	20,373	21,752	2%	2%
Liabilities arising from IT contracts	4,105	7,811	0%	1%
Financial liabilities	998	1,198	0%	0%
Other current liabilities	51,699	48,919	6%	5%
TOTAL EQUITY AND LIABILITIES	918,315	946,448	100%	100%

The share of equity in the structure of total equity and liabilities increased from 77% as at 31 December 2016 to 78% at the end of 2017, although its value recorded a slight decrease by PLN 13.1 million. The amount of equity dropped as a result of an increase in negative differences on foreign currency translation of our subsidiaries, which was partially offset by an increase in the amount of accumulated earnings. Our long-term liabilities remained at a similar level, while the amount of current liabilities decreased by PLN 15.2 million as compared to the previous year. Such decrease resulted basically from lower amounts of trade payables (by PLN 11.1 million), and liabilities arising from valuation of IT contracts (by PLN 3.7 million).

Structure of the statement of cash flows

	Year ended 31 Dec. 2017	Year ended 31 Dec. 2016
	PLN'000	PLN'000
Cash and cash equivalents at the beginning of the period	118,058	99,868
Net cash provided by (used in) operating activities	94,336	87,681
Net cash provided by (used in) investing activities	(64,758)	(38,287)
Net cash provided by (used in) financing activities	(23,880)	(29,545)
Foreign exchange differences	(8,194)	(1,659)
Cash and cash equivalents at the end of period	115,562	118,058

In the year 2017, our operating activities provided PLN 94.3 million of net cash flows, which is PLN 6.7 million more than in the prior year. Such increase in operating cash flows was primarily a consequence of stronger results achieved by the Group, accompanied by slightly higher depreciation charges than in 2016. The growing scale of our business as well as the higher effective tax rate caused an increase in the amount of income tax paid by PLN 4.4 million.

Net cash outflows in our investing activities amounted to PLN 64.8 million in 2017, increasing by PLN 26.5 million in relation to the previous year. Expenditures for the acquisition of property, plant and equipment and intangible assets increased to PLN 65.1 million from the level of PLN 30.3 million observed in 2016. This increase by nearly PLN 35 million resulted primarily from larger purchases of infrastructure to be used in the outsourcing of payment processes. In 2017, such expenditures amounted to almost PLN 58 million, as compared with approx. PLN 20 million spent for that purpose last year. Such higher spending was a result of new contracts for outsourcing of payment processes that were signed by the Payment Solutions segment, including a contract with Addiko Bank which provides for outsourcing of ATMs in five countries of the region. In 2016, investing activity cash flows additionally included expenditures of PLN 4.8 million for the acquisition of shares in subsidiaries that were not incurred by the Company in 2017.

In the year 2017, net cash flows in our financing activities amounted to PLN -23.9 million. Such negative cash flows were basically a consequence of a dividend payment in the total amount of PLN 24.9 million that was distributed to the shareholders of ASEE in July 2017. Our proceeds from bank loans and borrowings exceeded the amount of such repayments by PLN 4.2 million in 2017. ASEE Group uses external sources of financing mainly for purchases of infrastructure to be provided under outsourcing projects that are implemented by the Payment Solutions segment. Expenditures for the acquisition of non-controlling interests amounting to PLN 0.7 million were made to acquire additional shares in Serbia-based Chip Card.

13. EXTERNAL AND INTERNAL FACTORS SIGNIFICANT FOR DEVELOPMENT OF THE COMPANY AND THE GROUP

Because Asseco South Eastern Europe S.A. is primarily engaged in holding operations, factors significant for the Company's development need to be examined taking into account the development and operations of the entire ASEE Group.

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 2018. 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.

External factors with a bearing on the future financial performance of ASEE Group include:

- Economic situation in the region of South Eastern Europe and Turkey, especially in the context of the 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 the path of sustainable growth;
- 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;
- Opportunities and risks resulting from rapid technological changes and innovations in the IT market;
- 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;
- 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.

Internal factors with a bearing on the future financial performance of our Group include:

- Quality and comprehensive offering of ASEE Group;
- Research and development expenditures made by the Group;
- Prospects for expansion of ASEE's product portfolio on the back of organic growth or in connection with potential future acquisitions;
- 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.

14. 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 beyond. In connection with our current operations and planned development, the financial results achieved by ASEE may be influenced by factors related to economic and political stability in this region. Development of the IT services sector is closely correlated to the overall economic situation of South Eastern European countries. Therefore, our financial results depend on the level of capital expenditures made by enterprises, pace of GDP growth, 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 and lower inclination towards investments among enterprises.

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 tycoons, 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 enterprises, which increases the competitive pressure.

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 is paid to the standardization of solutions and optimization of costs at the corporate level. Headquarters of various banks may possibly decide to choose other IT market participants to provide for their technological needs, which may adversely affect 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 the 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 Eurozone 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

The majority of contracts for provision of IT services or products concluded by the Group determine a fixed remuneration. Therefore, they are not settled on a *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 revenues are generated from projects that are awarded through tendering procedures organized by state institutions and companies as well as by large private enterprises. Most of such tenders are attended by leading IT players in the region and major foreign companies, which results in considerably high competition. Our business depends on the access to 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 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 solutions 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 our markets become saturated and more mature.

Risk related to insolvency or misconduct of our subcontractors

In certain cases, we provide our clients with solutions that have been 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 the Group integration process

The Group is exposed to a risk associated with effective integration of ASEE S.A. and its subsidiaries, especially as the Group 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 if 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 of the Company and the Group

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 personnel 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 resulting 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. ASEE Group decided to liquidate its capitalized costs of development projects in the amount of PLN 7.9 million as at 31 December 2017, which has been described in explanatory note 9 to the Group's consolidated financial statements. There is a risk that in the future we will have to recognize further write-downs on intangible assets.

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 International a.s., our majority shareholder and a subsidiary of Asseco Poland S.A., holds 51.06% of shares in our Company. We expect that Asseco International a.s. will maintain its position as a majority shareholder and retain significant influence on our Company's business operations. Asseco International a.s. is entitled to exercise broad rights and powers with respect to its shareholding in the Company, and it must be taken into consideration that in the present situation Asseco International a.s. has a decisive impact on the Company's strategic decisions.

15. 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). 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.

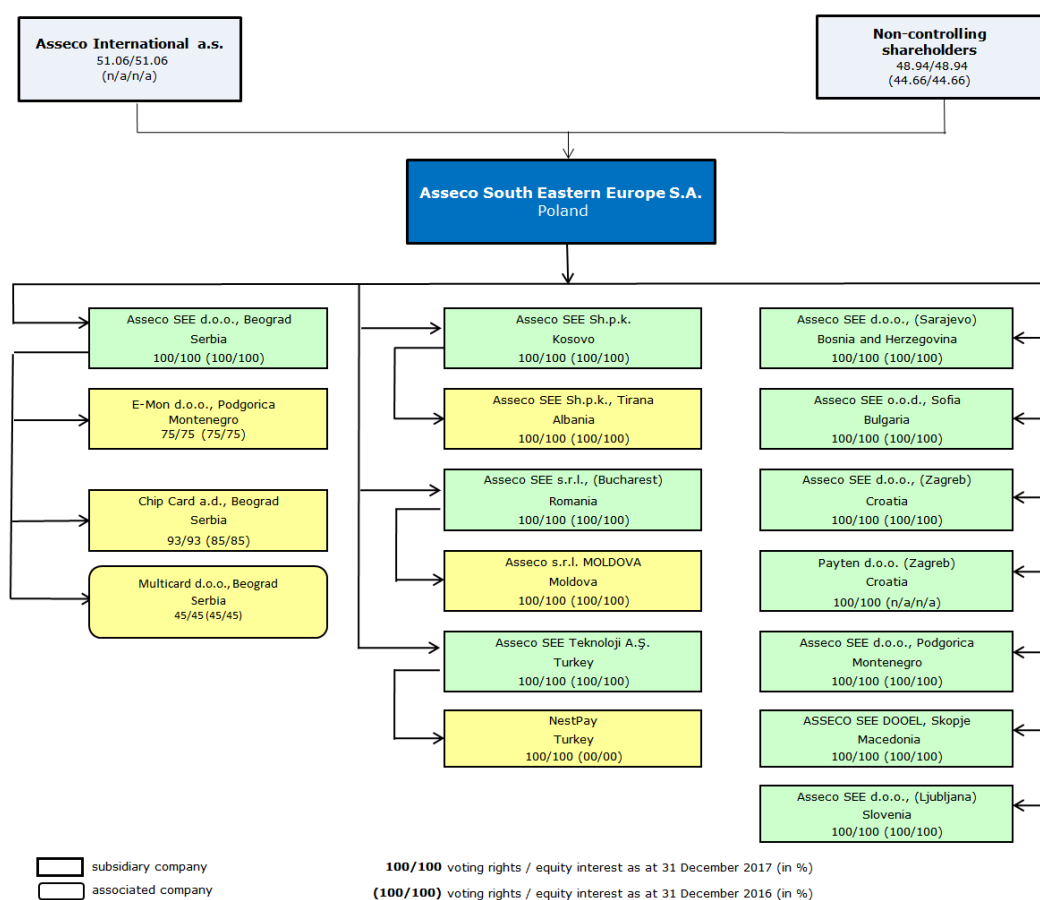
The Company's standalone and consolidated financial statements are drawn up by the Head of Group Reporting; whereas, their final content is subject to approval by the Company's Management Board which oversees all the business operations and processes.

16. MAJOR CAPITAL INVESTMENTS

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

17. 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 our higher-level parent Asseco International a.s. The Issuer's position as well as its organizational and equity relationships are presented below in the chart of ASEE Group organizational structure.



18. RELATED PARTY TRANSACTIONS

During 2017, 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 2017 has been presented in explanatory note 31 to the annual consolidated financial statements of ASEE Group.

19. ASSESSMENT OF THE FINANCIAL RESOURCES MANAGEMENT

During the year ended 31 December 2017, ASEE Group had no problems with timely settlement of its liabilities towards both suppliers and creditors, payment of state regulatory charges, or with fulfilling its investment commitments.

20. AGREEMENTS FOR BANK LOANS AND BORROWINGS

Information on liabilities of ASEE Group under bank loans and borrowings outstanding as at 31 December 2017 and 31 December 2016 has been presented in explanatory note 21 to the Group's annual consolidated financial statements for the year 2017.

21. LOANS GRANTED DURING THE FINANCIAL YEAR

During the year ended 31 December 2017, the Parent Company granted loans to its subsidiaries. Basic information on these loans is presented in the table below:

Name of entity	31 Dec. 2017	Effective interest rate % y	Currency	Repayment date
PLN'000				
ASEE Bulgaria	250	3M EURIBOR + margin	EUR	2019-05-30
ASEE Serbia	588	3M EURIBOR + margin	EUR	2019-12-31
ASEE B&H	2,732	3M EURIBOR + margin	EUR	2024-09-13
Payten, Croatia	6,678	1M EURIBOR + margin	EUR	2021-08-25
	10,248			

As at 31 December 2017, the amounts outstanding under loans granted in previous years were as follows:

Name of entity	31 Dec. 2017	Effective interest rate %	Currency	Repayment date
PLN'000				
ASEE Bulgaria	507	3M EURIBOR + margin	EUR	2018-07-15
ASEE Slovenia	679	1M EURIBOR + margin	EUR	2020-12-19
ASEE Slovenia	1,223	1M EURIBOR + margin	EUR	2020-12-19
Payten, Croatia	1,551	1M EURIBOR + margin	EUR	2020-12-19
ASEE Slovenia	543	1M EURIBOR + margin	EUR	2020-12-19
Payten, Croatia	712	1M EURIBOR + margin	EUR	2020-12-19
Payten, Croatia	817	1M EURIBOR + margin	EUR	2020-12-14
ASEE B&H	1,954	1M EURIBOR + margin	EUR	2020-12-19
ASEE Serbia	2,156	3M EURIBOR + margin	EUR	2018-09-30
ASEE Serbia	1,709	3M EURIBOR + margin	EUR	2019-03-31
Payten, Croatia	1,604	1M EURIBOR + margin	EUR	2020-12-14
ASEE Serbia	721	3M EURIBOR + margin	EUR	2018-12-31
ASEE Serbia	433	3M EURIBOR + margin	EUR	2019-03-31
	14,609			

As at 31 December 2017, we recognized an allowance for loans granted to ASEE Bulgaria in the amount of PLN 751 thousand. Such allowance was made due to the recognition of an impairment write-down on our investment in that company in 2016, and assessment of its ability to repay these loans.

Moreover, the Parent Company granted a loan to an unrelated entity which amounted to PLN 88 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.

22. SURETIES AND GUARANTIES

During the year ended 31 December 2017, the Parent Company did not issue any new guarantees/sureties for its subsidiaries.

Our off-balance-sheet liabilities arising from 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 2017 as well as in explanatory note 23 to the annual financial statements of ASEE for the year 2017.

23. UTILIZATION OF PROCEEDS FROM ISSUANCE OF SHARES

During the reporting period ended 31 December 2017, we did not issue any new shares.

24. 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.

25. 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.

26. CHANGES IN THE POLICIES OF COMPANY AND GROUP MANAGEMENT

Changes in the Group's management policies, which were introduced in 2017, and further plans concerning the direction of such changes have been described in item 6 of this report.

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

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

28. MONITORING OF EMPLOYEE STOCK OPTION PLANS

On 23 June 2017, Asseco Poland S.A. and managers of ASEE Group companies signed agreements for the acquisition of shares in ASEE S.A. The total number of ASEE shares covered by this plan is 2,221,356, representing 4.28% of the company's share capital. Members of the Management Board of ASEE S.A. as well as parties related through Members of the Management Board of ASEE S.A. acquired 1,572,424 shares in total. The remaining 648,932 shares were acquired by the management staff of subsidiary companies of ASEE Group.

As a result of these transactions, the shareholding of Asseco Poland S.A. in ASEE S.A. dropped from 55.34% to 51.06%. The above-mentioned agreements constitute an equity-settled share-based payment transaction as defined by IFRS 2.

Detailed information on the share-based payment plan has been presented in explanatory note 29 to the Group's annual consolidated financial statements for the year 2017.

29. 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 33 to the annual consolidated financial statements of ASEE Group for the year 2017.

30. 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 19 February 2018 and 31 December 2017

Name of shareholder	Number of shares held and votes at GMS	Equity interest and voting rights at GMS
Asseco International a.s.	26,494,676	51.06%
Aviva Pension Fund	8,809,000	16.97%
Other shareholders	16,590,575	31.97%
	51,894,251	100.00%

On 19 December 2017, the Management Board of ASEE S.A. was notified by Asseco International a.s., seated in Bratislava ("AI") that on 14 December 2017 Asseco Poland S.A. made a non-cash contribution of 26,494,676 of the Company's shares in favour of AI, in exchange for the acquisition by Asseco Poland S.A. of shares issued by AI.

As at 31 December 2017, AI (our higher-level parent) held 26,494,676 shares representing 51.06% in the share capital of our Company, which carried 26,494,676 votes or 51.06% of total voting rights at the Company's General Meeting of Shareholders. The parent company of Asseco International a.s. is Asseco Poland S.A.

On 23 June 2017, Asseco Poland S.A. and managers of ASEE Group companies signed agreements for the acquisition of 2,221,356 shares in ASEE S.A., representing 4.28% of the company's share capital. As a result of these transactions, the shareholding of Asseco Poland S.A. in ASEE S.A. dropped from 55.34% to 51.06%.

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%

Both as at 31 December 2017 and 31 December 2016, 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.

31. 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			
	19 Feb. 2018	31 Dec. 2017	26 Oct. 2017	31 Dec. 2016
Jozef Klein	-	-	-	n/a
Adam Góral	-	-	-	-
Jacek Duch	-	-	-	-
Jan Dauman ¹⁾	n/a	n/a	n/a	-
Artur Kucharski	-	-	-	-
Adam Pawłowicz ²⁾	-	-	-	n/a
Przemysław Sęczkowski ¹⁾	n/a	n/a	n/a	-
Gabriela Żukowicz ³⁾	n/a	n/a	n/a	150

Management Board Members	Number of shares held as at			
	19 Feb. 2018	31 Dec. 2017	26 Oct. 2017	31 Dec. 2016
Piotr Jeleński	967,492	967,492	967,492	550
Miljan Mališ ⁴⁾	300,000	300,000	300,000	500,000
Miodrag Mirčetić ⁵⁾	275,482	275,482	275,482	330,016
Marcin Rułnicki	30,000	30,000	30,000	-

1) Jan Dauman and Przemysław Sęczkowski have not been appointed for the next term of office at the Supervisory Board of ASEE S.A.

2) Adam Pawłowicz has been appointed as Member of the Supervisory Board of ASEE S.A. for the ongoing, joint term of office with effect from 18 October 2017.

3) Gabriela Żukowicz resigned from the position of Member of the Supervisory Board of ASEE S.A. with effect from 18 October 2017.

4) 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. Both as at 31 December 2017 and 19 February 2018, Mini Invest d.o.o. held 300,000 shares in ASEE S.A. that were acquired on 23 June 2017 under the agreement concluded with Asseco Poland S.A.

5) 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. Both as at 31 December 2017 and 19 February 2018, I4 INVENTION d.o.o. held 275,482 shares in ASEE S.A. that were acquired on 23 June 2017 under the agreement concluded with Asseco Poland S.A.

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

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

Information concerning any restrictions on sale 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.

33. 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 2017 was signed on 8 June 2017.

34. 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 34 to the annual consolidated financial statements of ASEE Group for the year 2017.

35. 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 2017, the related contingent liabilities equalled PLN 15,550 thousand, while as at 31 December 2016 they amounted to PLN 29,561 thousand.

As the Group companies rent office space, both as at 31 December 2017 and 31 December 2016, the Group was 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. 2017 (audited)	31 Dec. 2016 (audited)
In the period up to 1 year	13,289	13,842
In the period from 1 to 5 years	10,642	14,180
	23,931	28,022
Liabilities under operating lease of property, plant and equipment	31 Dec. 2017 (audited)	31 Dec. 2016 (audited)
In the period up to 1 year	1,425	1,492
In the period from 1 to 5 years	2,600	1,599
	4,025	3,091

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

As at 31 December 2017, ASEE Romania has been party to legal proceedings brought by Romsys S.R.L., which demands ASEE Romania to pay compensation in the amount of EUR 1,226 thousand in order to compensate for their 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, 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.

37. 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 19 February 2018.

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 Company and Group for the year ended 31 December 2017

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, 19 February 2018

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 financial statements of Asseco South Eastern Europe S.A. and the consolidated financial statements of Asseco South Eastern Europe Group for the year ended 31 December 2017, as well as 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 assets, financial position and financial results of the Company and the Group of Asseco South Eastern Europe. The report on operations of Asseco South Eastern Europe Company and Group provides a fair description of the development, achievements and financial position of the Company and the Group of Asseco South Eastern Europe, inclusive of major risks and threats to their operations.

- Ernst & Young Audyt Polska Sp. z o.o. (limited partnership), the entity authorized to audit the financial statements of Asseco South Eastern Europe S.A. and the consolidated financial statements of Asseco South Eastern Europe Group for the year ended 31 December 2017, 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 financial statements of Asseco South Eastern Europe S.A. as well as the 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, 19 February 2018