

Asseco Business Solutions S.A.

Financial statements for the year ended
31 December 2017 together with the
opinion of an independent certified auditor

asseco

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Statement of comprehensive income

for the year ended 31 December 2017 (in PLN thousand)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Revenues on sale		184,179	168,756
Own cost of sales	10.5	(101,686)	(95,993)
Gross profit on sales		82,493	72,763
Cost of sale	10.5	(8,416)	(7,389)
Administrative expenses	10.5	(15,918)	(13,909)
Net profit on sales		58,159	51,465
Other operating income	10.1	566	520
Other operating expenses	10.2	(367)	(425)
Operating profit		58,358	51,560
Financial income	10.3	1,370	1,115
Financial expenses	10.4	(1,194)	(196)
Gross profit		58,534	52,479
Taxes on income	11.1	(11,250)	(10,033)
Net profit from continuing operations		47,284	42,446
Discontinued operations			
Net profit for period		47,284	42,446
Other total income			
- Items to be converted to profit/loss in subsequent reporting periods		-	-
- Items not to be converted to profit/loss in subsequent reporting periods		(63)	85
Actuarial profit/loss concerning employee benefits		(78)	105
Income tax on remaining comprehensive income		15	(20)
Other comprehensive net income		(63)	85
Total income for period		47,221	42,531
Earnings per share:	13		
- basic/diluted profit for the reporting period		1.41	1.27
- basic/diluted profit for continuing operations in the reporting period		1.41	1.27

Balance sheet

as at 31 December 2017

ASSETS	Note	31 December 2017	31 December 2016
Non-current assets		298,463	195,877
Property, plant and equipment	15	10,801	11,721
Intangible assets	17	10,985	10,528
Goodwill	18	170,938	170,938
Investments in subsidiaries	19	102,349	–
Long-term receivables	20.1	599	599
Deferred tax assets	11.3	2,728	1,995
Long-term prepayments and accrued income	20.2	63	96
Current assets		43,571	105,805
Inventory	22	375	194
Prepayments and accrued income	20.2	811	1,053
Trade receivables	23	36,093	31,302
Other receivables	23	1,403	2,800
Financial instruments valued at fair value through profit or loss		291	–
Cash and short-term deposits	24	4,598	70,456
TOTAL ASSETS		342,034	301,682
LIABILITIES			
Share capital	25	167,091	167,091
Premium		62,543	62,543
Retained earnings		49,999	45,374
Total equity		279,633	275,008
Long-term liabilities		14,429	888
Interest-bearing loans and borrowings	26	13,352	–
Provisions	21	1,077	888
Current liabilities		47,972	25,786
Interest-bearing loans and borrowings	26	17,578	–
Trade liabilities	28.1	3,640	3,005
Other liabilities	28.1, 28.2	7,506	6,166
Income tax liabilities	28.2	4,370	3,738
Financial liabilities	28.1	–	164
Provisions	21, 27	401	378
Accruals and deferred income	28.3	14,477	12,335
Total liabilities		62,401	26,674
TOTAL EQUITY AND LIABILITIES		342,034	301,682

Cash flow statement

for the year ended 31 December 2017 (in PLN thousand)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Cash flows from operating activities			
Gross profit		58,534	52,479
Adjustments:		(719)	(3,316)
Amortization/Depreciation	10.5	10,985	10,992
Change in inventories		(181)	171
Change in receivables		(3,394)	(5,277)
Change in liabilities, excluding credits and loans		1,974	(1,071)
Change in accruals and prepayments		2,417	1,168
Change in provisions		134	208
Revenue on interest		(106)	(988)
Investment gain/(loss)		(1,057)	113
Income tax paid		(11,491)	(8,632)
Net cash from operating activities		57,815	49,163
Cash flows from investing activities			
Proceeds from the sale of non-financial fixed assets		298	229
Acquisition of property, plant and equipment		(3,588)	(5,830)
Acquisition of intangible assets		(7,041)	(6,567)
Acquisition/settlement of financial assets at fair value through profit and loss		412	(27)
Acquisition of subsidiaries		(102,349)	-
Established bank deposits		-	(3,019)
Cash returned from bank deposits		-	28,207
Interest received		502	1,059
Net cash from investing activities		(111,766)	14,052
Cash flows from financing activities			
Proceeds from obtained loans		30,928	-
Paid interest		(308)	-
Dividend paid		(42,441)	(33,418)
Net cash from financing activities		(11,821)	(33,418)
Increase/(Decrease) in net cash and cash equivalents		(65,772)	29,797
Net exchange differences		-	-
Opening cash	24	70,370	40,573
Closing cash	24	4,598	70,370

Statement of changes in equity

for the year ended 31 December 2017 (in PLN thousand)

	Share capital	Premium	Retained earnings	Total equity
12 months ended 31 December 2017				
As at 1 January 2017	167,091	62,543	45,374	275,008
Total income for period	–	–	47,221	47,221
Payment of dividend	–	–	(42,441)	(42,441)
Other transactions	–	–	(155)	(155)
As at 31 December 2017	167,091	62,543	49,999	279,633
12 months ended 31 December 2016				
As at 01 January 2016	167,091	62,543	36,261	265,895
Total income for period	–	–	42,531	42,531
Payment of dividend	–	–	(33,418)	(33,418)
As at 31 December 2016	167,091	62,543	45,374	275,008

Accounting rules (policies) and supplementary notes

1. General Information

These financial statements of Asseco Business Solutions S.A. cover the year ended 31 December 2017 and include comparative data for the year ended 31 December 2016.

Asseco Business Solutions S.A. ("the Company"; "unit") was established under a Notarial Deed dated 18 May 2001. The Company headquarters is located in Lublin at ul. Konrada Wallenroda 4c, 20-607.

The Company is registered in the Companies' Register of the National Court Register maintained by the District Court in Lublin, VI Economic Department of the National Court Register, under KRS: 0000028257. The Company has a business statistical number REGON 017293003.

The Company was established for an indefinite period of time.

The primary activity of Asseco Business Solutions S.A., according to the classification adopted by the Warsaw Stock Exchange, is "information technology."

Asseco Business Solutions is part of the Asseco Group. Within the Asseco Capital Group, the Company serves as a competence centre accountable for the development of ERP software, mobile reporting systems (SFA), factoring systems and software for SMEs in Poland. The Company's comprehensive offering also includes the provision, adaptation and configuration of business applications for enterprises, design and construction of infrastructure at the client or in the outsourcing model, providing equipment and system software of renowned partners, training for the customer's personnel, maintenance, and remote support for users. Asseco Business Solutions owns a Data Centre whose capacity parameters meet the highest standards of security, reliability and effectiveness of systems operation.

The direct parent of Asseco Business Solutions S.A. is Asseco Enterprise Solutions a.s., headquartered in Bratislava, Slovakia, which holds 46.47% of the Company's shares.

2. Composition of the Company's governing bodies

On 31 December 2017, the Management Board of the Company consisted of:

Wojciech Barczentewicz	President of the Management Board
Piotr Masłowski	Vice-President of the Management Board
Andreas Enders	Vice-President of the Management Board
Mariusz Lizon	Member of the Management Board

On 31 December 2017, the Supervisory Board of the Company consisted of:

Jozef Klein	President of the Supervisory Board
Adam Góral	Vice-Chairman of the Supervisory Board
Romuald Rutkowski	Member of the Supervisory Board
Zbigniew Pomianek	Member of the Supervisory Board
Piotr Stępnia	Member of the Supervisory Board

On 31 December 2016, the Supervisory Board of the Company consisted of:

Romuald Rutkowski	Chairman of the Supervisory Board
Adam Góral	Vice-Chairman of the Supervisory Board
Zbigniew Pomianek	Member of the Supervisory Board
Adam Pawłowicz	Member of the Supervisory Board
Grzegorz Ogonowski	Member of the Supervisory Board

On 2 October 2017, an audit committee was established composed of Piotr Stępnia (chairman), Romuald Rutkowski and Adam Góral (members).

3. Approval of the financial statements

These financial statements were approved for publication by the Management Board on 6 March 2018. The Company prepared the consolidated financial statements for the year ended 31 December 2017 which was approved for publication on 6 March 2018.

4. Significant values based on estimates and professional judgement

4.1. Professional judgement

In the process of applying accounting rules (policies) to the issues listed below, of utmost importance, in addition to accounting estimates, was professional judgement of the management.

Classification of lease agreements

The Company classifies leases as operating or finance based on an assessment of the extent to which risks and benefits of ownership of the leased item fall in the share of the lessor and the lessee, respectively. This assessment is based on the economic substance of each transaction.

4.2. Estimation uncertainty

Below, the main assumptions have been made about the future and other key sources of uncertainty occurring on the balance sheet date which carry a significant risk of substantial adjustments to the carrying amounts of assets and liabilities within the next financial year. The Company made future assumptions based on the knowledge held when drawing up these financial statements. The assumptions and estimates may be subject to change as a result of future events ensuing from market fluctuations or changes beyond the Company's control. Such changes are reflected in the assumptions and estimates at the time of occurrence.

Impairment of assets

The Company tests goodwill for impairment. This requires an estimation of the value in use of the cash-generating unit, to which goodwill has been allocated that has emerged through the acquisition of a subsidiary and mergers. Estimating the value in use consists in determining future cash flows generated by the cash-generating unit and requires the discount rate to use in order to calculate the present

value of those cash flows. Discount factor is the weighted average cost of capital (WACC). Assumptions adopted to that end are set out in Note 18.

Valuation of provisions for employee benefits

Provisions for employee benefits were estimated using actuarial methods. Assumptions adopted to that end are set out in Note 21.

Deferred tax asset

The Company recognizes a deferred tax asset based on the assumption that the future tax profits will be achieved allowing for its use. Deterioration of the tax results in the future could make the assumption unjustified.

The fair value of financial instruments

The fair value of financial instruments, for which there is no active market, is determined by appropriate valuation techniques. When selecting appropriate methods and assumptions, the Company is guided by professional judgement.

Revenue recognition

The Company is performing under a number of contracts for the development and implementation of information systems. The valuation of IT contracts requires the establishment of future operating cash flows in order to determine the fair value of revenues and expenses, and to measure the degree of progress of the project work. The Company uses the method of percentage of work progress in accounting for long-term contracts. The use of this method requires the Company to estimate of the proportion of the work done so far to the total services to be provided.

Amortization/depreciation rates

The amount of amortization/depreciation rates is determined on the basis of the expected economic lifetime of tangible fixed assets and intangible assets. The Company will review the adopted periods of economic useful life based on current estimates annually.

Uncertainty related to tax settlements

Regulations on the goods and services tax, corporate income tax and social insurance are subject to frequent changes. These frequent changes result in the lack of appropriate reference points, inconsistent interpretations and few precedents that could be applied. The provisions in force contain ambiguities which can cause differences of opinion as to the legal interpretation of tax regulations both among the state bodies and between government bodies and companies.

Tax settlements and other areas of activity (e.g. customs or foreign currency issues) may be subject to inspection by bodies entitled to impose severe penalties and fines, and any additional fiscal obligations arising out of the inspection must be paid together with high interest. This makes the tax risk in Poland significantly higher than in countries with more mature tax systems.

Consequently, the amounts shown and disclosed in the financial statements may change in the future as a result of the final decision of the tax audit authority.

On 15 July 2016, Polish tax law was amended to include changes that allow for the General Anti-Abuse Rule (GAAR). GAAR is to prevent the use of artificial schemes created in order to avoid the payment of tax in

Poland. GAAR defines tax avoidance as an operation carried out with a view to achieving a tax advantage contrary, in the specific circumstances, to the object and purpose of tax law. According to GAAR, such an operation does not result in a tax advantage if the scheme of action has been artificial. Any occurrence of (i) unfounded dividing of an operation, (ii) the involvement of intermediate parties despite the lack of commercial or economic grounds, (iii) of mutually exclusive or compensating elements, and (iv) other activities of a similar effect to the previously mentioned, can be treated as a factor typical of artificial schemes addressed by the GAAR. The new regulations will require more judgement when assessing the tax effects of individual transactions.

The GAAR clause should apply to transactions made after its entry into force and the transactions that were carried out prior to its entry into force but for which the advantages were or are still being achieved after the date of entry of the clause into force. The adoption of these regulations will enable the Polish tax inspection bodies to challenge the legal arrangements and agreements pursued by the taxpayer, such as the restructuring and reorganisation of the group.

The Company recognises and measures current and deferred income tax assets or liabilities by applying the requirements of IAS 12 *Income tax* based on profit (tax loss), taxable amount, unrelieved tax losses, unused tax reliefs and tax rates, while taking into account an assessment of the uncertainty associated with tax settlements.

When there is uncertainty as to whether and to what extent the tax authority accepts the individual transaction tax settlements, the Company will recognize such settlements taking into account the assessment of uncertainty.

5. Basis for the preparation of these financial statements

These financial statements have been prepared in accordance with the historical cost accounting model, except for derivative financial instruments measured at their fair value.

These financial statements are presented in the Polish złoty ("PLN") and all values, unless specified otherwise, are given in thousands of PLN.

While preparing these financial statements, it was assumed that the Company would continue its business activity in the foreseeable future. At the date of approval of these financial statements, no fact or circumstances were identified that might pose a threat to the Company in continuing its business.

5.1. Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU. On the day of approval of these financial statements for publication, taking into consideration the EU's ongoing process of introducing the IFRS and activities conducted by the Company, there is no difference in the accounting rules applied by the Company between the IFRS, which entered into force, and the IFRS adopted by the EU.

IFRS comprise the standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

5.2. Functional currency and reporting currency

The functional currency of the Company and the reporting currency of these financial statements is the Polish złoty (PLN).

6. Changes in accounting rules used

The accounting rules (policies) used to prepare these financial statements are consistent with those applied in preparing the Company's financial statements for the year ended 31 December 2016, with the exception given below. The following amendments to IFRS were applied to these financial statements in accordance with their effective date, however, they did not have a significant impact on the presented and disclosed financial information or were not applicable to transactions concluded by the Company:

- *Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses*
The amendments clarify the emergence of negative temporary differences in the case of debt instruments valued at fair value, an estimate of the likely future taxable profit and an assessment of whether generated income will allow the realization of negative temporary differences. The amendments apply retrospectively.
- *Amendments to IFRS 7 Disclosure Initiative*
The amendments require the unit to disclose information that enables the users of financial statements to assess changes in liabilities arising from financing activities. It is not required to provide comparative information for previous periods.
- *Amendments to IFRS 12 Disclosure of Interests in Other Entities – as part of Amendments resulting from the review of IFRS 2014-2016*
The amendments clarify that the requirements provided in the standard also apply to the unit's shares in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), affiliates or unconsolidated structured entities which are classified (or included in the group for sale, which has been classified) as held for sale or as discontinued operations in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

The Company has not opted for the early application of any other standard, interpretation or amendment that was published but has not yet entered into force under EU law.

7. New standards and interpretations that have been published and not yet in force

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee and are not yet in force:

- *Amendments to IAS 28 Investments in Associates and Joint Ventures as a part of Amendments resulting from the review of IFRS 2014-2016* (published on 8 December 2016) –

- – applicable to annual periods beginning on or after 1 January 2018,
- Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* as part of *Amendments resulting from the review of IFRS 2014-2016* (published on 8 December 2016) – applicable to annual periods beginning on or after 1 January 2018,
- Amendments to IFRS 4: Application of IFRIC 9 *Financial Instruments* with IFRIC 4 *Insurance Contracts* (published on 12 September 2016) – applicable to annual periods beginning on or after 1 January 2018,
- Clarification to IFRS 15 *Revenue from Contracts with Customers* (published on 12 April 2016) – – applicable to annual periods beginning on or after 1 January 2018,
- IFRS 14 *Regulatory Deferral Accounts* (published on 30 January 2014) – as decided by the European Commission, the process of approving the standard in its preliminary version will not be initiated before the final version of the standard is ready; not approved by the EU until the date of approval of these financial statements; applicable to annual periods beginning on or after 1 January 2016,
- Amendments to IAS 10 and IAS 28 *Sales or Contribution of Assets Between an Investor and its Associate or Joint Venture* (published on 11 September 2014); the work intended to approve these amendments have been postponed by the EU for an unlimited period of time. The date of entry into force has been postponed by the IASB for an indefinite period of time,
- IFRIC 17 *Insurance Contracts* (published on 18 May 2017) – applicable to annual periods beginning on or after 1 January 2021; not approved by the EU until the date of approval of these financial statements,
- Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions* (published on 20 June 2016) – applicable to annual periods beginning on or after 1 January 2018,
- IAS 40 *Investment Property* (published on 8 December 2016) – applicable to annual periods beginning on or after 1 January 2018; not approved by the EU until the date of approval of these financial statements,
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* (published on 12 October 2017) – applicable to annual periods beginning on or after 1 January 2019; not approved by the EU until the date of approval of these financial statements,
- Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures* (published on 12 October 2017) – applicable to annual periods beginning on or after 1 January 2019; not approved by the EU until the date of approval of these financial statements,
- *Amendments resulting from the review of IFRS 2015-2017 concerning four standards: IFRS 3, IFRS 11, IAS 12 and IAS 23* (published on 18 May 2017) – applicable to annual periods beginning on or after 1 January 2019; not approved by the EU until the date of approval of these financial statements,
- Amendments to IFRS 19 *Plan Amendment, Curtailment or Settlement* (published on 7 February 2018) – applicable to annual periods beginning on or after 1 January 2019 –

not approved by the EU until the date of approval of these financial statements,

- Interpretation of IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (published on 8 December 2016) – applicable to annual periods beginning on or after 1 January 2018; not approved by the EU until the date of approval of these financial statements,
- Interpretation of IFRIC 23 *Uncertainty over Income Tax Treatments* (published on 7 June 2017) – the interpretation is applicable to annual periods beginning on or after 1 January 2019; not approved by the EU until the date of approval of these financial statements.

Effective dates are based on the standards published by the Financial Reporting Council. The dates of application in the European Union may differ from the dates of application resulting from the content of the standards and are announced at the time of EU's approval for application.

The Company is currently analysing how the introduction of these standards and interpretations may influence the financial statements and on the Company's accounting rules (policy).

The Management Board's analysis and preliminary impact assessment of the new or amended standards on the Company's accounting rules (policies) and future financial statements covered, in particular, the impact of new IFRS 9, 15 and 16 which may affect or cause changes to the accounting and reporting practice of the Company in the years 2018-2019.

IFRS 15 Revenues from Contracts with Customers

The standard was published on 28 May 2014 and subsequently amended in April 2016 and is effective for annual reporting periods beginning on or after 1 January 2018. The standard was adopted by the European Union on 22 September 2016.

IFRS 15 introduces a five-step model of recognising revenue from contracts with customers. According to the standard, revenues are recognised in the amount that reflects the value of the remuneration that the Company is entitled to (expects) in exchange for the transfer of promised goods or services to the customer.

The new standard will replace all the existing requirements concerning revenue recognition in accordance with IFRS. With regard to annual periods beginning on or after 1 January 2018, it is required to apply the full retrospective approach or a modified retrospective approach. Earlier application of the standard is allowed.

The Company plans to implement the new standard as from the date of its entry into force. The Company has analysed contracts with clients: beginning with identification of the contract, through the identification of individual obligations and determination of transaction prices, to the allocation of prices to individual obligations and recognition of revenue upon the performance of the obligation. After analysing the previously applied methods of recognizing revenue, the Company has reckoned that there were no significant differences in relation to the requirements contained in IFRS 15.

IAS 9 Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) published the final version of IFRS 9 *Financial Instruments*. This standard replaces previous IAS 39 *Financial Instruments: Recognition and Measurement* and all the previous versions of IFRS 9. IFRS 9 combines all the three aspects of financial instruments accounting: classification and measurement, impairment,

and hedge accounting. IFRS 9 will be effective for annual periods beginning on or after 1 January 2018; earlier application is allowed.

The Company intends to apply the new standard from its entry into force, without converting comparative data.

In 2017 the Company carried out a detailed assessment of the impact of new IFRS 9 on the accounting rules (policy) applied by the Company with respect to its operations or financial results. This assessment is based on currently available information and may be subject to changes after collecting rational and substantiated additional information during the period when the Company applies IFRS 9 for the first time.

The Company does not expect a significant impact of the introduction of IFRS 9 on its financial standing and equity nor on the classification of financial instruments.

The Company does not expect a significant impact on the statement of financial position and equity in connection with the application of IFRS 9 in the area of classification and valuation. It is expected that all financial assets measured at fair value so far will continue to be measured at fair value.

Trade receivables are maintained to obtain cash flows under agreements, and the Company does not sell trade receivables as part of factoring: they will continue to be measured at amortized cost through profit or loss. The Company benefits from practical exemption and does not identify significant financing components for trade receivables below 12 months.

In accordance with IFRS 9, the entity measures the allowance for expected credit losses in the amount equal to 12-month expected credit losses or expected credit losses during the life of the financial instrument. In the case of trade receivables, the Company will apply a simplified approach and will measure the allowance for credit losses in the amount equal to the expected credit losses over the whole life.

The Company does not apply hedge accounting, so any changes thereto will not affect the financial statements of the Company.

IFRS 16 Leases

In January 2016, the International Accounting Standards Board issued the International Financial Reporting Standard 16 *Lease* ("IFRS 16"), which replaced IAS 17 *Leasing*, IFRIC 4 *Determining Whether an Agreement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the rules of recognition for leasing in terms of measurement, presentation and disclosure.

IFRS 16 introduces a single lessee's accounting model and requires the lessee to recognize assets and liabilities under each lease with a period exceeding 12 months, unless the underlying asset is of low value. On the commencement date, the lessee recognizes an asset on account of the right to use the underlying asset and a lease liability that reflects their obligation to make lease payments.

The lessee separately recognizes the depreciation of an asset under the right of use and interest on lease liability.

The lessee updates the valuation of lease liability after the occurrence of certain events (e.g. changes in the leasing period, changes in future lease payments resulting from a change in the index or the rate used to determine these payments). In principle, the lessee recognizes the revaluation of the lease liability as an adjustment to the asset's value based on the right of use.

The Company is a lessee in office space rental agreements, as discussed in detail in Note 16.

The lessor's accounting, in accordance with IFRS 16, remains substantially unchanged compared with the current accounting in accordance with IAS 17. The lessor will continue to recognize all lease agreements using the same classification principles as in the case of IAS 17, distinguishing between operating lease and financial lease.

IFRS 16 requires the lessor and lessee to make broader disclosures than in the case of IAS 17.

The lessee has the right to choose a full or modified retrospective approach, and the transitional arrangements provide for some practical solutions.

IFRS 16 is applicable to annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that have applied IFRS 15 from or had applied it before the first application of IFRS 16. The Company did not decide to apply IFRS 16 early.

On the day of approval of these financial statements for publication, the Management Board was in the middle of assessment of the introduction of IFRS 16 on the Company's application of the accounting rule (policy) in relation to the Group's operations or financial results.

8. Significant accounting policies

8.1. Conversion of items denominated in foreign currencies

Transactions denominated in currencies other than the Polish zloty are translated into Polish zlotys at the rate applicable on the date of transaction.

On the balance sheet date, monetary assets and liabilities denominated in currencies other than the Polish zloty are converted into the Polish zloty using the average rate fixed at the end of the reporting period for a given currency by the National Bank of Poland. The foreign exchange differences arising on translation are recognised as financial income (expense) or, in the cases referred to in the accounting rules (policies), capitalized as assets values. Non-monetary assets and liabilities recognised at historical cost expressed in foreign currency are restated at the rate on initial transaction date. Non-monetary assets and liabilities recognised at fair value denominated in foreign currency are restated at the rate of valuation to fair value.

For the purpose of valuation, the following exchange rates were adopted:

	31 December	31 December
USD	3.4813	4.1793
EUR	4.1709	4.4240

8.2. Property, plant and equipment

Property, plant and equipment, other than land, are stated at acquisition or production cost, less accumulated depreciation and impairment losses. Initial cost of property, plant and equipment comprises the acquisition cost plus all costs directly related to their acquisition and adaptation for use. This cost also includes

the cost of replacing the constituent parts of machinery and equipment when incurred, if the relevant recognition criteria are met. Costs incurred after the date of commissioning of the asset to be used, such as maintenance and repair costs, are charged to profit or loss when incurred.

The purchase price of property, plant and equipment provided by the customer is measured at fair value at the date of taking over the control.

Property, plant and equipment at the time of purchase are divided into components which are items of significant value to which a specific period of economic useful life may be assigned. Components are also the cost of overhauls.

Amortization is calculated on straight line basis over the estimated useful life of the asset, amounting to:

Type	Period
Buildings and structures	<u>10</u> year
Machinery and equipment	<u>2-5</u> year
Office equipment	<u>2-7</u> year
Means of transport	<u>5</u> year
Computers	<u>2-5</u> year

Residual value, useful economic life and depreciation method of assets are reviewed annually and, if necessary – adjusted with effect from the beginning of the just-completed financial year.

The item of property, plant and equipment may be derecognised from the balance sheet if sold, or if there are no expected economic benefits resulting from its further use. Any gain or loss resulting from the derecognition of the asset from the balance sheet (calculated as the difference between the net sales proceeds and the carrying value of the asset) are recognized in profit or loss for the period in which such derecognition was made.

Investment in progress concerns the tangible assets in the course of construction or assembly and are disclosed at purchase price or production cost, less any impairment losses. Tangible assets under construction are not subject to depreciation until the end of the construction and transfer of the asset to use.

8.3. Intangible assets

Intangible assets acquired in separate transactions, or produced (if they meet the recognition criteria for the development costs), are valued at initial recognition, respectively in the purchase price or production cost. The purchase price of intangible assets acquired in a business combination is equal to their fair value at the date of the combination. After initial recognition, intangible assets are valued at acquisition or production cost less accumulated amortization and impairment losses. Expenditures incurred on intangible assets produced in-house, with the exception of capitalized expenditures on development work, are not capitalised and are included in the cost of the period in which they are incurred.

The Company determines whether the useful life of intangible assets is determined or undetermined. Intangible assets with determined useful lives are amortised over the useful life and tested for impairment whenever there are indications of loss of their value. The period and the amortization method for intangible assets with limited useful lives are reviewed at least at the end of each financial year. Changes in the expected useful life, or expected pattern of consumption of economic benefits from the asset are accounted for by a change of the period or amortization method,

and treated as changes in accounting estimates. Amortization charge for intangible asset with determined use is recognized in profit or loss in the category which corresponds to the function of the intangible asset.

Intangible assets with undetermined useful lives and those which are not occupied, are tested annually for possible impairment in respect of individual asset or at the level of cash-generating unit.

The useful life is subject to an annual review and, if necessary, adjusted with effect from the beginning of the just-completed financial year.

Costs of research and development

Research costs are recognised in profit or loss when incurred. Expenditure on development activities carried out within a project are carried forward if it can be concluded that they will be recovered in the future. After the initial recognition of expenditure on development, the historical cost model is applied which requires that the assets were recorded at purchase price less any accumulated amortization and accumulated impairment losses. Capitalized expenditure is amortized over the projected period of obtaining revenues from the sale of a given project.

Goodwill

Goodwill on acquisition of a business entity is initially recognized at cost constituting the surplus of the amount: i) of the payment transferred, ii) of the amount of all non-controlling shares in the acquired entity, and iii) in the case of combining entities executed at fair value as at the day of acquiring share in the capital of the acquired entity, formerly owned by the acquirer, over the net amount determined as at the day of acquiring values of the identifiable acquired assets and assumed liabilities.

After the initial recognition, goodwill is recorded at acquisition cost less any accumulated impairment losses. Impairment test is carried out annually or more frequently if there are grounds for doing so. Goodwill is not amortized.

At the date of acquisition, goodwill acquired is allocated to each cash-generating unit that can benefit from the merger synergy. Each unit or group of units to which goodwill has been allocated:

- corresponds to the lowest level in the Company, at which goodwill is monitored for internal management and
- is not greater than one operating segment determined in accordance with IFRS 8 *Operating Segments*.

An impairment loss is determined by estimating the recoverable amount of cash-generating unit to which a given goodwill is allocated. Where the recoverable value of the cash-generating unit is less than carrying value, impairment loss is recognised. Where goodwill forms part of the cash-generating unit and part of the activities within the unit is sold, in determining profit or loss from sales of such an activity, goodwill associated with the sold activity is included in its carrying amount. In such circumstances, sold goodwill is determined on the basis of the relative value of sold activity and the value of what remains of the cash-generating unit.

Summary of the rules applicable to the Company's intangible assets is as follows:

	<i>Patents and licences</i>	<i>Cost of development</i>	<i>Computer software</i>
Periods of use	Unspecified. For patents and licences used under an agreement for a specified period of time, this period will be adopted having regard to the additional period for which the use may be extended.	2 – 5 years	2 – 5 years
Used method of amortisation	Values with indefinite useful life are not amortized nor revalued. Amortized over the term of the agreement (2 - years) - straight-line method.	2 - 5 years straight-line	2 - 5 years straight-line
Generated internally or acquired	Acquired	Generated internally	Acquired
Impairment test	Indefinite useful life – annual and if there is evidence of impairment. For other – annual assessment of whether there has been an impairment loss.	Annual for the assets yet to use and if there is evidence of impairment.	Annual assessment whether there have been indications of impairment.

Gains or losses resulting from the removal of intangible assets from the balance sheet are valued according to the difference between net sales proceeds and the carrying amount of the asset, and are recognized in profit or loss during derecognition.

8.4. Leasing

The Company as a lessee

Finance leases, which, substantially, transfer to the Company all the risks and rewards of ownership of a leased asset, are recognised in the balance sheet at the inception of the lease at the lower of the following two values: the fair value of an asset being the subject of lease or current value of the minimum lease payments. Lease payments are apportioned between the finance charges and the reduction of the outstanding lease liability so as to obtain a constant periodic rate of interest on the remaining balance of the liability. Financial expenses are recognised in profit or loss, unless the requirements of capitalization are met.

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

Lease agreements, whereby the lessor retains substantially all the risks and rewards incidental to ownership of the leased asset, are treated as operating lease. Leasehold interest under operating lease and further lease instalments shall be recognised as operating expenses in profit or loss on a straight-line basis over the lease period.

Conditional lease payments are recognized as an expense in the period in which they fall due.

8.5. Impairment of non-financial assets

At every balance sheet date, the Company carries out a valuation of its non-financial assets concerning any possible impairment. If any such indication exists, or if it is necessary to perform an annual impairment test, the Company shall estimate the recoverable amount of an asset or cash-generating unit to which the asset belongs.

The recoverable amount of an asset or cash-generating unit is fair value less costs of selling the asset or, where appropriate cash-generating unit, its value in use, depending on whichever is higher. The recoverable amount is determined for individual assets, unless the asset does not generate cash inflows independently, most of which are independent from those that are generated by other assets or groups of assets. If the carrying value of an asset exceeds its recoverable value, impairment charges are made reducing the carrying value to the level of recoverable value. When estimating the value in use, projected cash flows are discounted to their present value using a discount rate before the effects of taxation, which reflects the current market estimate of time value of money and the risks specific to the asset. Impairment losses for assets used in continuing operations are recognised in these categories of costs that correspond to the functions of the asset for which impairment was found.

8.6. Cost of external borrowing

Borrowing costs are capitalized as part of the manufacturing cost of fixed assets and intangible assets. Borrowing costs consist of interest calculated using the effective interest method, the financial burden of financial lease contracts and foreign exchange differences incurred in connection with external borrowing to the amount corresponding to the adjustment of interest expense.

8.7. Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are stated at historical cost, including impairment losses.

8.8. Financial assets

Financial instruments are divided into the following categories:

- Financial assets held to maturity,
- Financial instruments valued at fair value through profit or loss,
- Loans granted and receivables
- Financial assets available for sale.

Financial assets held to maturity are non-derivative financial assets quoted in an active market of definite or definable payments and fixed maturity that the Company intends and is able to hold to that time, other than:

- designated upon initial recognition as at fair value through profit or loss,
- designated as available for sale,
- meeting the definition of loans and receivables.

Financial assets held to maturity are valued at amortized cost using the effective interest

rate. Financial assets held to maturity are classified as non-current assets if their maturity

exceeds 12 months from the balance sheet date.

A financial asset measured at fair value through profit or loss is an asset fulfilling one of the following conditions:

- a) is classified as held for trading. Financial assets are classified as held for trading if they are:
 - acquired principally for the purpose of sale in the short term,
 - part of a portfolio of identified financial instruments that are managed together and for which there is a likelihood of obtaining a profit in the short term,
 - derivative instruments, excluding derivatives, which are part of hedge accounting and financial guarantee contracts,
- b) in accordance with IAS 39, it was qualified for this category at initial recognition.

Financial assets measured at fair value through profit or loss are measured at fair value taking into account their market value on the balance sheet date without taking into account the costs of sale. Changes in the value of these financial instruments are recognized in the statement of comprehensive income as income (favourable net changes in fair value) or financing costs (unfavourable net changes in fair value). If a contract contains one or more embedded derivatives, the entire contract may be classified into categories of financial assets measured at fair value through profit or loss. This does not apply to cases where the embedded derivative does not significantly affect the cash flows under the contract or it is clear without any, or after a cursory examination, that if a similar hybrid instrument were to be the first taken into account, then the separation of the embedded derivative would be prohibited. Financial assets may originally be designated as measured at fair value through profit or loss if the following criteria are met: (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch), or (ii) assets are part of a group of financial assets that are managed and evaluated at fair value, according to a documented risk management strategy, or (iii) financial assets contain embedded derivatives that should be recognised separately.

Loans and receivables are financial assets not included under derivatives and having fixed or determinable payments not quoted in the active market. They are classified as current assets if the maturity date does not exceed 12 months from the balance sheet date. Loans and receivables with the maturity date exceeding 12 months from the balance sheet date are classified as fixed assets.

Financial assets available for sale are non-derivative financial assets, which have been classified as available for sale or belonging to any of the aforementioned three categories of assets. Financial assets available for sale are recognized at fair value plus transaction costs that may be directly attributed to the acquisition or issue of a financial asset. In the absence of stock quotes in the active market and the inability to reliably determine their fair value alternatively, financial assets available for sale are valued at cost adjusted for impairment loss of value. Positive and negative difference between the fair value of assets available for sale (if there is a fixed market price in the active regulated market or whose fair value can be reliably determined in any other way) and their purchase price, net of deferred tax, is recognized in other comprehensive income. Decline in the value of assets available for sale due to loss of value is recognised as financial expense.

Purchase and sale of financial assets are recognised at the date of the transaction. On initial recognition, a financial asset is measured at fair value plus, in the case of an asset unqualified as measured at fair value through profit or loss, transaction costs, which can be directly attributable to the acquisition.

A financial asset is removed from the balance sheet when the Company loses control over contractual rights that make up a financial instrument; it usually occurs when an instrument is sold, or if all the cash flows attributable to that instrument are transferred to an independent third party.

8.9. Impairment of financial assets

At each balance sheet date, the Company determines if there are any objective indications of impairment of a financial asset or group of financial assets.

8.9.1. Financial assets carried at amortized cost

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

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

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall

be reversed. Such reversal of the impairment write-down shall be recognized in profit or loss to the extent that the carrying amount of the financial asset does not exceed its amortized cost at the date the impairment is reversed.

8.9.2. Financial assets carried at cost

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

8.9.3. Financial assets available for sale

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

8.10. Embedded derivatives

Embedded financial derivatives shall be separated from host contracts and treated as financial derivatives, if the following conditions are jointly met:

- the economic characteristics and risks of the embedded instrument are not closely related to economic characteristics and risks of the host contract;
- on a standalone basis, the embedded instrument meets the definition of a derivative financial instrument;
- a hybrid (combined) instrument containing the embedded financial derivative is not measured at fair value and the adjustments of its fair value are not recognised in profit or loss.

Embedded financial derivatives shall be recognised in the accounting books similarly to

other financial derivatives which are not classified as hedging instruments.

The extent to which, in accordance with IAS 39, the economic characteristics and risks specific to the embedded derivative in a foreign currency are closely related to the economic characteristics and risks applicable to the main contract (host contract) also covers situations where the currency of the main contract is the customary currency for acquisition or sales contracts for non-financial items in the market for a given transaction.

The assessment whether an embedded derivative shall be subject to separation is made by the Company at the time of initial recognition.

8.11. Derivative financial instruments and security

Derivatives used by the Company to hedge against the risks associated with changes in interest rates and exchange rates are primarily foreign exchange forward contracts. This type of derivative financial instruments is measured at fair value. Derivatives are presented as assets when their value is positive, and as liabilities when their value is negative.

Gains and losses arising from changes in fair value of derivatives, which do not meet the hedge accounting rules, are taken directly to the net profit and loss in the financial year.

The fair value of foreign exchange forward contracts is determined by reference to current forward rates occurring in contracts of a similar maturity.

The Company does not apply hedge accounting.

8.12. Inventory

Inventories are valued at the lower of the following two values: purchase price/production

cost or net realizable value.

The purchase price or production cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, both in the current and previous year, and are determined as follows:

- | | |
|--|--|
| Materials | • in the purchase price determined by the "first in-first out" method; |
| Finished products and work-in-progress | • the cost of direct materials and labour and attributable surcharge of production overheads given the normal capacity utilisation, excluding borrowing costs; |
| Goods | • in the purchase price determined by the "first in-first out" method; |

The selling net realizable price is the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

8.13. Trade and other receivables

Trade receivables are recognized and carried at original invoiced amounts, including an allowance for doubtful debts. Allowance for receivables is evaluated when the recovery of the full amount is no longer probable.

Where the effect of the time value of money is material, the receivables are determined by discounting the expected future cash flows to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money. Where the discounting method is used, the increase in receivables due to the passage of time is recognized as financial income.

Other receivables include, in particular, advances provided for future purchases of inventory and services, budget receivables, receivables on accrued income, other commercial settlements for the security and the security deposit. Advances are presented in accordance with the nature of the assets to which they relate - to as fixed assets or current assets. As non-monetary assets, advances are not discounted.

Budget receivables are presented under other non-financial assets, excluding receivables of corporate income tax, which constitute a separate item on the balance sheet.

8.14. Cash and short-term deposits

Cash and short-term deposits presented in the balance sheet consist of cash at bank and in hand and short-term cash deposits. The balance of cash and cash equivalents presented in the statement of cash flows consists of cash at bank and in hand and bank deposits with the original maturity not exceeding three months. Short-term deposits with the original maturity over three months are considered for the sake of the statement of cash flows as part of the investment activity.

8.15. Interest-bearing bank credits, loans and debt securities

All the bank credits, loans and debt securities are initially recognized at fair value less the costs related to obtaining a credit or loan.

Subsequently to such initial recognition, bank credits, loans and debt securities are measured at amortized purchase price using the effective interest rate.

Determination of the amortized purchase price shall take into account the costs related to obtaining a credit or loan, as well as the discounts or bonuses obtained on repayment of the liability.

Gains and losses shall be recognized in the profit and loss account after the liability has been removed from the balance sheet and as a result of the settlement by the effective interest rate method.

8.16. Trade and other liabilities

Current trade liabilities are recognised in an amount requiring payment.

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities initially qualified for the category measured at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near future. Derivatives, including separated embedded instruments, are also classified as held for trading unless they are recognised as effective hedging instruments. Financial liabilities may originally be recognised as measured at fair value through profit or loss if the following criteria are met:

(i) such designation eliminates or significantly reduces recognition inconsistency, when both the measurement and recognition of gains or losses are subject to other regulations, or (ii) liabilities are part of a group of financial liabilities that are managed and evaluated based on fair value, according to a documented risk management strategy, or (iii) financial liabilities contain embedded derivatives that should be recognised separately.

Financial assets measured at fair value through profit or loss are measured at fair value taking into account their market value on the balance sheet date without taking into account the costs of sale. Changes in the fair value of these instruments are recognised in profit or loss as an expense or income accounts.

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

The Company excludes financial liabilities from its balance sheet when a liability expires, i.e. when the obligation specified in the contract is fulfilled, cancelled or has expired. Replacement of the existing debt instrument by instrument of substantially different conditions made between the same parties the Company recognises as the expiry of the original financial liability and the recognition of a new financial liability. Similarly, significant modifications to a contract for the existing financial liability are recognised by the Company as termination of the initial and recognition of a new financial liability. Any differences arising through the change and related to the carrying value are recognised in profit or loss.

Other non-financial liabilities comprise in particular liabilities to the Inland Revenue for value added tax, social insurance liabilities, wage liabilities, liabilities for the valuation of long-term IT contracts and liabilities arising from received advances, which will be settled by delivery of goods, services or fixed assets. Other non-financial liabilities are recognised in an amount requiring payment.

8.17. Provisions

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

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

8.18. Retirement benefits

According to the Company's remuneration system, the Company's employees are entitled to retirement benefits. Retirement benefits are paid only once, at the time of retirement. The amount of retirement benefits depends on length of service and average salary of the employee. The Company creates a provision for future liabilities for retirement benefits in order to assign costs to the periods to which they relate. According to IAS 19, retirement benefits are defined as post-employment benefit programmes. Current value of these liabilities for each balance sheet date is calculated by an independent actuary. Accrued liabilities are equal to the discounted payments, which will be made in the future, taking into account the rotation of employment, and concern the period to the balance sheet date. Demographic information and information about job rotation are based on historical data.

Cost of employment is recognised in profit or loss. Reassessment of liabilities for employee benefits pertaining to specific benefit schemes covering actuarial gains and losses is recognized in other comprehensive income and is not subject to subsequent reclassification to profit or loss.

The Company recognizes the following changes in net liabilities of specific benefits under the general and administrative expenses, which include:

- cost of employment (including, among others, current service cost, past service cost),
- net interest from net liabilities arising from specific benefits.

8.19. Revenues

Revenues are recognized in the amount reflecting probable economic benefits associated with a given transaction to be obtained by the Company and when the amount of revenue can be measured reliably. Revenues are recognized at fair value of the consideration received or receivable, net of value added tax (VAT) and discounts. While recognizing sales revenues the following criteria are also taken into account.

8.19.1. Sale of products and goods

Revenues are recognized if the significant risks and benefits resulting from ownership of products have been transferred to the buyer and when the amount of revenue can be measured reliably.

8.19.2. Services

Revenues from services are recognised based on the percentage of their completion. The percentage of the progress of service is determined as the ratio of the number of completed man-hours to the estimated number of man-hours needed to complete the work, or as the ratio of costs incurred to the estimated costs necessary to complete the work.

Should it be impossible to estimate reliably the result of the contract, the revenues shall only be recognized in the amount of costs incurred which the Company expects to recover.

8.19.3. Interest

Interest income is recognized as it accrues (taking into account the effective interest rate which accurately discounts future cash flows during the estimated period of use of a financial instrument) to the net carrying value a financial asset.

8.19.4. Dividends

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

8.19.5. Revenue from rent (operating lease)

Revenues from rental of investment property are recognised on a straight-line basis over the rental period for open contracts.

8.19.6. Government grants

If there is a reasonable certainty that the subsidy is received, and all the relevant conditions are met, the government subsidies are recognized at their fair value.

When a subsidy relates to an item of cost, then it is recognized as income in a manner commensurate with the costs that this grant is intended to compensate. If a subsidy corresponds to a specific asset, then its fair value is first recognized in the deferred income account to be afterwards gradually written off, by way of equal annual write-offs, and recognised as income in profit or loss over the estimated useful life of the related asset.

8.20. Taxes

8.20.1. Current tax

Current tax liabilities and receivables for current and previous periods are measured at the amounts expected to be paid to the tax authorities (which are recoverable from tax authorities), using the tax rates and tax laws, which were legally in force at the balance sheet date.

8.20.2. Deferred tax

For the purpose of financial reporting, deferred tax is calculated applying the balance sheet liability method to all temporary differences that exist, at the balance sheet date, between the tax base of an asset or liability and its carrying value in the balance sheet.

Deferred income tax provisions are established in relation to all taxable temporary differences,

- except for situations when a deferred tax provision arises from initial recognition of goodwill or initial recognition of an asset or liability on a transaction other than combination of companies, which at the time of its conclusion has no influence on gross profit or loss and taxable income or tax loss, and
- as well as in relation to positive temporary differences arising from investments in subsidiary or associated companies or from participation in joint ventures – except for situations when the investor is able to control the timing of reversal of such temporary differences and when it is probable that such temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognized in relation to all negative temporary differences, as well as unused deferred tax assets or unused tax losses carried forward to subsequent years, in such amount that it is probable that future taxable income will be sufficient to allow the above-mentioned temporary differences, assets or losses to be utilized,

- except when deferred tax assets related to negative temporary differences arise from initial recognition of an asset or liability on a transaction other than combination of companies, which at the time of its conclusion has no influence on gross profit or loss and taxable income or tax loss, and,
- in case of negative temporary differences arising from investments in subsidiary or associated companies or from participation in joint ventures, deferred tax assets are recognized in the balance sheet in such amount only that it is probable that the above-mentioned temporary differences will be

reversed in the foreseeable future and that sufficient taxable income will be available to offset such negative temporary differences.

The carrying value of an individual deferred tax asset is verified at every balance sheet date and is adequately decreased or increased in order to reflect any changes in the estimates of achieving taxable profit sufficient to utilize such deferred tax asset partially or entirely. An asset not included in deferred tax will be reassessed at each balance sheet and is recognised to the extent that reflects the likelihood of achieving future taxable income conducive to the recovering of the asset.

Deferred tax assets and deferred tax provisions are valued using the future tax rates anticipated to be applicable at the time when a deferred tax asset is realized, or a deferred tax provision is reversed, the basis for which will be the tax rates (and tax regulations) legally or factually in force at the balance sheet date.

Income tax relating to items recognised outside profit or loss is recognised outside profit or loss: in other comprehensive income relating to items recognised in other comprehensive income or directly in equity relating to items recognised directly in equity.

The Company compensates deferred tax assets against deferred tax provisions if and only if it is possible to have a legally enforceable right to offset receivables against liabilities under the current tax, and deferred tax is linked to the same taxpayer and same tax authority.

8.20.3. Tax on Goods and Services

Revenues, expenses and assets are recognised in the amounts excluding value added tax unless:

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

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

8.21. Net profit per share

Net profit per share for each period is calculated by dividing the net profit for the period by the weighted average number of shares in the reporting period.

9. Operating segments

In accordance with IFRS 8, an operating segment is a distinguishable component of the Company, for which separate financial information is available that is reviewed regularly by the operations management responsible for the resource allocation and assessment of performance.

For the management purposes, the Company was divided into segments reflecting its manufactured products and rendered services. Based on that, the Management Board have identified the ERP systems segment which accounts for more than 93% of total Company's revenues. Other activities do not meet the quantitative thresholds of IFRS 8 and are not separated. Changes in the size and significance of developed products and provided services may result in a change of composition of operating segments.

The ERP systems segment is made up of Oracle and Microsoft-based ERP solutions that support business management and original SFA and FFA solutions intended for businesses operating through the teams of sales representatives. These applications support business processes and information flow processes, covering most areas of the business, including: finance and accounting, personnel management, HR and payroll, logistics and WMS, mobile and retail sales in chains of stores, production and Internet applications. The systems provide a number of management tools: advanced reporting instruments and Business Intelligence solutions. The technological capacity of the systems enables their deployment in various network architectures (including WAN) and combination with specialized software and hardware.

As unallocated revenue presented is the sale not attributable to any of the main Company's segments.

The segment results do not include the unallocated part of administrative costs, the value of resold goods, materials and external services (COGS) related to unallocated sales and operating expenses of the organizational unit generating unallocated sales.

The Management Board monitors the operating results in separate segments in order to make decisions about allocating resources, assessing the impact of this allocation, and performance. The basis for the assessment of performance is profit or loss on operating activities, which to some extent, as explained in the table below, are measured differently than the profit or loss from operations in the financial statements. The financing of the Company (including costs and financial income) and income tax are monitored at the levels of the Company and they are not allocated to the segments.

Year ended 31 December 2017	ERP Systems	Unallocated	Activity total
Sales to external customers	172,179	12,000	184,179
Sales between segments	-	-	-
Total segment revenues	172,179	12,000	184,179
Gains on segment sales	57,484	675	58,159
Other net operating income/(expenses)		199	199
Net financial income/(expenses)		176	176
Taxes on income		(11,250)	(11,250)
Profit for period	57,484	(10,200)	47,284
Segment assets	227,507	114,527	342,034
Other information			
Capital expenditure	10,328	314	10,642
Amortization/Depreciation	(10,935)	(50)	(10,985)

1. Segment operating profit does not include financial income (PLN 1,370 thousand), financial expenses (PLN 1,194 thousand), other operating income (PLN 566 thousand) and other operating expenses (PLN 367 thousand) and the result of unallocated activity (PLN 675 thousand).
2. Segment assets do not include deferred tax (PLN 2,728 thousand), cash and short-time deposits (PLN 4,598 thousand), long-term receivables (PLN 599 thousand), financial assets measured at fair value through profit or loss (PLN 291 thousand), investment in subsidiaries (PLN 102,349 thousand) and other unallocated assets (PLN 3,962 thousand) because these assets are managed at the level of the Company.

Year ended 31 December 2016	ERP systems	Unallocated	Activity total
Sales to external customers Sales	154,544	14,212	168,756
between segments	–	–	–
Total segment revenues	154,544	14,212	168,756
Gains on segment sales	50,192	1,273	51,465
Other net operating income/(expenses)		95	95
Net financial income/(expenses)		919	919
Taxes on income		(10,033)	(10,033)
Profit for period	50,192	(7,746)	42,446
Segment assets	224,750	76,932	301,682
Other information			
Capital expenditure	9,970	2,456	12,426
Amortization/Depreciation	(10,948)	(44)	(10,992)

1. Segment operating profit does not include financial income (PLN 1,115 thousand), financial expenses (PLN 196 thousand), other operating income (PLN 520 thousand) and other operating expenses (PLN 425 thousand) and the result of unallocated activity (PLN 1,273 thousand).
2. Segment assets do not include deferred tax (PLN 1,995 thousand), financial assets and short-term deposits (PLN 70,456 thousand), long-term liabilities (PLN 599 thousand) and other unallocated assets (PLN 3,882 thousand) because these assets are managed at the level of the Company.

Geographic information

Revenues from external customers:

	Year ended 31 December 2017	Year ended 31 December 2016
Poland	158,244	147,716
Abroad, including:	25,935	21,040
– The Netherlands	7,873	7,196
– France	6,341	5,657

- Romania	2,189	1,868
- Germany	3,140	2,160
- USA	18	125
- Spain	430	699
- Portugal	84	342
- Turkey	203	249
- Czech Republic	624	476
- the Baltics (Lithuania, Latvia, Estonia) and Russia	153	145
- others	4,880	2,123
	184,179	168,756

This information on revenue is based on data on customers' headquarters.

Non-current assets:

	31 December 2017	31 December 2016
Poland	21,786	22,249
	21,786	22,249

These non-current assets consist of tangible and intangible assets.

10. Income and expense

10.1. Other operating income

Other operating income	Year ended 31 December 2017	Year ended 31 December 2016
Profit from the sale of non-financial assets	195	153
Proceeds from rental of office space	320	327
Other	51	40
Total	566	520

10.2. Other operating expenses

Other operating expenses	Year ended 31 December 2017	Year ended 31 December 2016

Donations to unrelated parties	(94)	(58)
Liquidation of fixed assets	(4)	(74)
Other operating expenses	(269)	(293)
Total	(367)	(425)

10.3. Financial income

Financial income	Year ended 31 December 2017	Year ended 31 December 2016
Income from bank interest	502	988
Other interest income	2	8
Positive exchange rates	–	119
Gains from foreign currency derivatives execution - entered forward contracts	412	–
Loss from changes in fair value of foreign currency derivatives - entered forward contracts	454	–
Total	1,370	1,115

10.4. Financial expenses

Financial expenses	Year ended 31 December 2017	Year ended 31 December 2016
Interest costs on loans	(755)	–
Negative exchange rates	(303)	–
Other interest expense	(7)	(4)
Bank fees and charges	(129)	–
Losses from foreign currency derivatives execution - entered forward contracts	–	(27)
Losses from changes in fair value of foreign currency derivatives - entered forward contracts	–	(165)
Total	(1,194)	(196)

10.5. Expenses by type

	Year ended 31 December 2017	Year ended 31 December 2016
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The value of sold goods, materials and external services (COGS)	(10,935)	(13,287)
Consumption of materials and energy	(2,442)	(2,335)
External services	(18,290)	(17,349)
Remuneration	(68,944)	(60,090)
Employee benefits	(12,942)	(11,549)
Amortization/Depreciation	(10,985)	(10,992)
Taxes and fees	(805)	(783)
Business trips	(541)	(569)
Other	(136)	(337)
Total	(126,020)	(117,291)
Own cost of sales, including:		
<i>production cost</i>	(101,686)	(95,993)
<i>value of goods sold, materials and external services (COGS)</i>	(90,751)	(82,706)
<i>and external services (COGS)</i>	(10,935)	(13,287)
Cost of sale	(8,416)	(7,389)
Cost of management and administration	(15,918)	(13,909)
Total	(126,020)	(117,291)

10.6. Amortization and depreciation costs and write-downs recognized in profit or loss

	Year ended 31 December 2017	Year ended 31 December 2016
Items included in own cost of sales:		
Depreciation of fixed assets	(3,753)	(3,606)
Amortization of intangible assets	(6,570)	(6,774)
Impairment of inventories	(16)	(21)
Items included in cost of sales		
Depreciation of fixed assets	(202)	(168)
Amortization of intangible assets	(2)	(1)
Items included in administrative expenses		
Depreciation of fixed assets	(433)	(433)
Amortization of intangible assets	(25)	(10)
	(11,001)	(11,013)

10.7. Employee benefit costs

	Year ended 31 December 2017	Year ended 31 December 2016
Remuneration	(68,778)	(59,759)
Establishment of retirement provision	(134)	(209)
Termination of retirement provision	–	–
Establishment/termination of provisions for unused leave	(32)	(122)

Total	(68,944)	(60,090)
Employee benefits, including:		
<i>Social security costs</i>	(12,178)	(10,885)
CSBF	(10,778)	(9,487)
Total	(764)	(664)
Total	(12,942)	(11,549)
Employee benefit costs in total, including:	(81,886)	(71,639)
Items included in own cost of sales	(64,975)	(56,633)
Items included in cost of sales	(5,388)	(4,851)
Items included in administrative expenses	(11,523)	(10,155)

11. Taxes on income

11.1. Tax burden

The main components of tax burden for the year ended 31 December 2017 and 31 December 2016 are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax	(11,968)	(10,323)
Deferred income tax	718	290
Tax expense reported in profit and loss account, including:	(11,250)	(10,033)
<i>Income tax attributed to discontinued operations</i>	<i>(11,250)</i>	<i>(10,033)</i>

11.2. Approval of effective tax rate

Reconciliation of the income tax payable on gross profit according to the statutory tax rates with the income tax computed at the Company's effective tax rate for the year ended 31 December 2017 and 31 December 2016 is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Gross profit before tax from continuing operations	58,534	52,479
Gross profit before tax from discontinued operations	–	–
Gross profit before tax	58,534	52,479
Income tax at applicable statutory tax rate of 19% (2016 19%)	11,121	9,971

Use of tax allowances deducted from tax	(129)	(155)
Costs which are not deductible	258	217
Other	–	–
According to the effective tax rate of: 19.22% (2016: 19.12%)	11,250	10,033
Income tax (charge) shown in the profit and loss account	(11,250)	(10,033)
Income tax attributed to discontinued operations	–	–
	(11,250)	(10,033)

11.3. Deferred income tax

Deferred tax due to the following items:

	Balance sheet		Profit and loss account for the year ended	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Provision for deferred tax				
The difference between tax base and accounting value of fixed and intangible assets	(253)	(252)	(1)	6
Revaluation of currency contracts to fair value	(55)	(6)	(49)	(1)
Accrued sales revenues	(62)	(419)	357	(155)
Financial revenue from accrued interest	–	(16)	16	14
Other	(73)	(45)	(28)	(42)
Deferred tax gross provisions	(443)	(738)		
Deferred tax assets				
Retirement benefits	211	170	41	20
The difference between tax base and accounting value of fixed and intangible assets	81	96	(15)	2
Valuation of financial assets and liabilities at fair value	–	37	(37)	32
Provisions for bonuses, holidays, estimated costs	2,570	2,154	416	292
Revaluation write-downs on current assets	150	158	(8)	33
Accrued income	149	116	33	71
Other	10	2	8	(2)
Deferred tax gross assets	3,171	2,733		
Deferred tax net assets	2,728	1,995		
Deferred tax charge			733	270
<i>Change in deferred tax recognized directly in other comprehensive income</i>			15	(20)
<i>Change in deferred tax recognized in profit and loss</i>			718	290

12. Social assets and liabilities to the Company Social Benefit Fund

The Act of 4 March 1994 on the Company Social Benefit Fund with amendments provides that the Company Social Benefit Fund be established by employers with over 20 full time employees.

The Company maintains such a fund and makes periodic allowances of the basic allowance level. The objective of the Fund is to finance the social activities of the Company, loans to its employees and other social expenses.

The Company offset the Fund's assets with its commitments to the Fund because these assets do not fall within the definition of Company assets. Accordingly, the net balance at 31 December 2017 amounts to PLN 224 thousand (as at 31 December 2016: PLN 7 thousand).

The tables below break down the Fund's assets, liabilities and expenses.

	31 December 2017	31 December 2016
Fixed assets brought to the Fund	–	–
Loans granted to employees	–	–
Cash	334	25
Liabilities to the Fund	110	18
Balance after offset	224	7

	Year ended 31 December 2017	Year ended 31 December 2016
Allowances to the Fund in the financial period	764	664

13. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of the Company by the weighted average number of issued ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of issued ordinary shares outstanding during the period adjusted by the weighted average number of ordinary shares, which would be issued on conversion of all dilutive potential equity instruments into ordinary shares.

Below is the data on earnings and shares that were used in calculating basic and diluted earnings per share:

	Year ended 31 December 2017	Year ended 31 December 2016
Net profit from continuing operations	47,284	42,446
Loss from discontinued operations	–	–
Net profit	47,284	42,446
Interest on redeemable preference shares convertible into ordinary shares	–	–
Net profit attributable to ordinary shareholders used in the calculation of diluted earnings per share	47,284	42,446
Weighted average number of issued ordinary shares used to calculate basic earnings per share	33,418,193	33,418,193
Effect of dilution:	–	–

Stock options	–	–
Redeemable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share	33,418,193	33,418,193
Basic/diluted earnings per share	1.41	1.27

Between the balance sheet date and the date of preparation of these financial statements, there were no other transactions involving ordinary shares and potential ordinary shares.

14. Paid and proposed dividends

The dividend on ordinary shares for 2016 was paid on 1 June 2017 and amounted to PLN 42,441 thousand (the dividend for 2015 was paid on 1 June 2016 and amounted to PLN 33,418 thousand).

The value of dividend per share paid for 2016 amounted to PLN 1.27 (2015: PLN 1.00). The Company did not pay an advance for the dividend for the year 2017.

Until the date of publication of these financial statements, the Management Board had not adopted a resolution containing the proposal of the distribution of net profit for 2017.

15. Property, plant and equipment

Year ended 31 December 2017	Land and building	Machinery and equipment	Means of transport	Other fixed assets	In total
Gross value as at 1 January 2017	2,294	16,238	8,451	2,093	29,076
Acquisitions	46	3,413	86	43	3,588
Sales	–	(692)	(1,021)	–	(1,713)
Liquidation	–	(955)	–	–	(955)
Gross value as at 31 December 2017	2,340	18,004	7,516	2,136	29,996
Depreciation and write-downs as at 1 January 2017	(1,108)	(11,045)	(3,537)	(1,665)	(17,355)
Depreciation allowance for period	(235)	(3,311)	(783)	(72)	(4,401)
Sales	–	691	919	–	1,610
Liquidation	–	951	–	–	951
Depreciation and write-downs as at 31 December 2017	(1,343)	(12,714)	(3,401)	(1,737)	(19,195)
Net value as at 1 January 2017	1,186	5,193	4,914	428	11,721
Net value as at 31 December 2017	997	5,290	4,115	399	10,801

Year ended 31 December 2016	Land and buildings	Machinery and equipment	Means of transport	Other fixed assets	In total
Gross value as at 1 January 2016	2,280	16,530	6,403	2,287	27,500
Acquisitions	14	3,065	2,738	13	5,830

Sales	–	(854)	(654)	–	(1,508)
Liquidation	–	(2,503)	(36)	(207)	(2,746)
Gross value as at 31 December 2016	2,294	16,238	8,451	2,093	29,076
Depreciation and write-downs as at 01 January 2016	(876)	(10,962)	(3,580)	(1,805)	(17,223)
Depreciation allowance for period	(232)	(3,323)	(614)	(67)	(4,236)
Sales	–	811	621	–	1,432
Liquidation	–	2,429	36	207	2,672
Depreciation and write-downs as at 31 December 2016	(1,108)	(11,045)	(3,537)	(1,665)	(17,355)
Net value as at 1 January 2016	1,404	5,568	2,823	482	10,277
Net value as at 31 December 2016	1,186	5,193	4,914	428	11,721

Neither in 2017 nor in 2016 did the Company use any equipment under finance lease and lease purchase contracts.

Land and buildings are not covered by mortgages to secure Company's bank loans.

16. Leasing

16.1. Commitments under operating lease – the Company as a lessee

The Company has lease contracts on office space, which as at 31 December 2017 and as at 31 December 2016 entailed the following future minimum payments under the non-cancellable operating lease contracts:

	31 December 2017	31 December 2016
Within 1 year	1,093	4,727
From 1 to 5 years	187	1,167
More than 5 years	–	–
	1,280	5,894

16.2. Commitments under finance lease and lease purchase contracts

Neither at 31 December 2017 or at 31 December 2016, the Company did not have any finance lease liabilities or lease contracts with a purchase option.

17. Intangible assets

Year ended 31 December 2017	Patents and licences	Goodwill	IA not put into use	Other	Total
Gross value as at 1 January 2017	45,486	170,938	1,303	444	218,171
Acquisitions	799	–	–	–	799
Capitalization of costs of pursued development projects	–	–	6,255	–	6,255
Transfer from IA in progress	6,691	–	(6,691)	–	–
Sales	–	–	–	–	–
Liquidation	–	–	–	–	–
Gross value as at 31 December 2017	52,976	170,938	867	444	225,225
Amortization and write-downs as at 1 January 2017	(35,820)	–	(604)	(281)	(36,705)
Depreciation allowance for period	(6,597)	–	–	–	(6,597)
Sales	–	–	–	–	–
Liquidation	–	–	–	–	–
Amortization and write-downs as at 31 December 2017	(42,417)	–	(604)	(281)	(43,302)
Net value as at 1 January 2017	9,666	170,938	699	163	181,466
Net value as at 31 December 2017	10,559	170,938	263	163	181,923

Year ended 31 December 2016	Patents and licences	Goodwill	IA not put into use	Other	In total
Gross value as at 1 January 2016	47,453	170,938	1,380	444	220,215
Acquisitions	168	–	–	–	168
Capitalization of costs of pursued development projects	–	–	6,428	–	6,428
Transfer from IA in progress	6,505	–	(6,505)	–	–
Sales	–	–	–	–	–
Liquidation	(8,640)	–	–	–	(8,640)
Gross value as at 31 December 2016	45,486	170,938	1,303	444	218,171
Amortization and write-downs as at 01 January 2016	(37,675)	–	(604)	(281)	(38,560)
Depreciation allowance for period	(6,785)	–	–	–	(6,785)
Sales	–	–	–	–	–
Liquidation	8,640	–	–	–	8,640
Amortization and write-downs as at 31 December 2016	(35,820)	–	(604)	(281)	(36,705)
Net value as at 1 January 2016	9,778	170,938	776	163	181,655
Net value as at 31 December 2016	9,666	170,938	699	163	181,466

The Company conducts development projects involving the design of new software or substantial modifications/extensions to the existing software in the Company's portfolio. Intangible assets not put into use are expenditure incurred in connection with the pursuit of development projects. The Management Board has analysed the current value of the costs with their recoverable amount and found that there is no need for an impairment loss.

18. Goodwill

Goodwill presented in the separate financial statements includes goodwill created from the merger of Asseco Business Solutions S.A., Safo Sp. z o.o., Softlab Sp. z o.o., Softlab Trade Sp. z o.o. and WA-PRO Sp. z o.o., and goodwill on consolidation resulting from the merger of Asseco Business Solutions S.A. with Anica System S.A.

	31 December 2017	31 December 2016
Carrying value of goodwill	170,938	170,938

Goodwill is allocated to a cash-generating unit which is also a separate operating segment – ERP systems.

Goodwill is subject to an annual impairment test using a discounted free cash flow model for equity owners and creditors (Free Cash Flow to Firm).

Key assumptions used to calculate the recoverable amount:

- The recoverable amount of the unit was estimated on the basis of use value, calculated on cash flow projections based on financial budgets approved by the Management Board and the Supervisory Board.
- A detailed forecast covered the period of 5 years, during which flows were assumed to increase in subsequent years; for the rest of the period of the unit's operation, the residual value was calculated with the assumed absence of flow increase.
- Probable increases in flows depend on the strategy for the whole Company and tactical plans of the units and take into account the conditions governing individual market; at the same time, they reflect the current and potential portfolio of orders. A potential portfolio of orders assumes the retention of current and prospecting for new customers. The envisaged increases do not depart from the average market growth.
- The discount rate is consistent with the weighted average cost of capital for the Company. The individual components of this rate were estimated based on market data on risk-free interest rates, the value of the beta factor, which was leveraged based on the market structure of the debt/equity and the value of expected return from the market.

As a result of the test for impairment, it should be noted that at 31 December 2017 there was no need to apply impairment to goodwill.

	ERP Systems
Goodwill assigned to the cash-flow generating unit	170,938
Gross margin	40%
Growth rate	2% - 3%
Discount rate	9.55%
The recoverable amount of the cash-generating unit	753,095

The carrying value of a cash-generating unit comprises the sum of net operating assets attributable to the reporting segment, i.e. tangible fixed assets, intangible assets, goodwill, inventories, receivables and trade payables.

Sensitivity to changes in assumptions

Estimating the value in use of the unit shows certain sensitivity to changes in the assumptions concerning the discount rate and percentage increase in sales revenues. The Management Board is convinced, however, that no reasonably possible change in any of the key assumptions set out above will enable the carrying value of the unit to exceed the recoverable value.

If the budgeted increase in revenue used to calculate the value in use of the cash-generating unit were 3% lower than the estimates of the Management Board at 31 December 2017, the recoverable amount of the unit would be PLN 670 million.

If the estimated pre-tax discount rate used in discounted cash flow for the cash-generating unit was about 3% higher than the estimates of the Management Board, the recoverable amount of this unit would be PLN 574 million.

19. Investments in subsidiaries

Asseco Business Solutions invests in the following subsidiaries:

Subsidiary	Seat	Basic activity	Company's percentage share in equity and votes	
			31 December 2017	31 December 2016
Macrologic S.A.	Poland	Information technology	100.00%	–

Stock and shares in subsidiaries	31 December 2017	31 December 2016
Macrologic S.A.	102,349	–
Total	102,349	–

During the 12 months ended 31 December 2017, the following changes took place regarding the investments of Asseco Business Solutions S.A. in subsidiaries:

On 14 June 2017, transactions were settled concluded in connection with the tender offer for the shares of Macrologic S.A. announced by Asseco Business Solutions S.A. on 11 April 2017. After the settlement of the tender offer, Asseco BS held 1,667,603 shares of Macrologic S.A., representing 88,29% of the share capital and votes at the General Meeting of Macrologic S.A. In addition, Macrologic S.A. held 159,436 own shares, which is approximately 8.44% of the share capital and votes at the General Meeting of Macrologic S.A.

On 24 July 2017, the settlement was held of the squeeze-out transaction on the shares of Macrologic S.A. announced by Asseco Business Solutions S.A. on 19 July 2017. The squeeze-out covered all the remaining shares of Macrologic, i.e. 61,680 shares, representing approximately 3.27% of Macrologic's share capital and the same number of votes at the General Meeting of Macrologic S.A.

After the settlement of the squeeze-out, Asseco BS holds directly 1,729,283 shares of Macrologic S.A., representing 91,56% of the share capital and votes at the General Meeting of Macrologic S.A.

Moreover, Macrologic S.A. holds 159,436 own shares, which represented approx. 8.44% of its share capital.

The share price in the tender offer was PLN 59.0 per share. The total transaction value amounted to PLN 98,389 thousand. The value of the squeeze-out transaction amounted to PLN 3,639 thousand.

20. Other assets

20.1. Long-term receivables

Long-term receivables	31 December 2017	31 December 2016
Other receivables	599	599
Total	599	599
- short-term	-	-
- long-term	599	599

Other receivables consist of deposits in escrow account securing the payment of rent in the rented office.

20.2. Prepayments and accrued income

Prepayments and accrued income	31 December 2017	31 December 2016
Prepaid maintenance services	356	401
Prepaid insurance	289	438
Prepaid subscriptions	13	8
Prepaid training	59	93
Other prepaid services	157	209
Total	874	1,149
- short-term	811	1,053
- long-term	63	96

21. Employee benefits

21.1. Retirement benefits and other post-employment benefits

The unit pays the retiring employees retirement benefits in the amount determined by the Labour Code. Accordingly, the Company, on the basis of valuation by a professional actuary entity, establishes a provision for the present value of retirement liabilities. The amount of this provision and a reconciliation showing its fluctuating status during the financial period are shown in the table below:

	31 December 2017	31 December 2016
At 1 January	893	790
Establishment of provision	212	114
The costs of benefits paid	–	(11)
Termination of provision	–	–
At 31 December	1,105	893
- short-term	28	5
- long-term	1,077	888

Amounts in employee benefit schemes recognised in profit and loss:

	31 December 2017	31 December 2016
Cost of employment	102	89
Revaluation of net liabilities for employee benefits		
<i>actuarial gains and losses resulting from changes in demographic predictions</i>	18	14
<i>actuarial gains and losses resulting from changes in financial predictions</i>	66	(146)
<i>actuarial gains and losses resulting from adjustments of ex-post assumptions</i>	(6)	26
Paid benefits	–	(11)
Cost of future employment	–	108
Interest expense	32	23
<i>Items of scheme costs recognised in profit and loss</i>	134	209
<i>Items of scheme costs recognized in other comprehensive income</i>	78	(106)
At 31 December	212	103

An employee who meets the eligibility conditions for an invalidity allowance or pension, and whose employment is terminated in connection with the retirement, is entitled to severance pay equal to one-month salary. Pensioners re-employed do not acquire the right to another severance pay.

The resulting value of provision for employee benefits is the present (discounted) value of anticipated future payments, which are required to be made in order to meet the obligations arising from the employee's service in previous periods. This value is the sum of provisions, calculated individually for each person employed by the Company.

The value of expected future payments for retirement benefits is calculated by multiplying the probability of employee's survival to retirement in the Company (taking into account the probability of survival to retirement), the percentage of the basis of severance pay that the employee is entitled to upon payment and undiscounted value of the basis at the time of payment of the benefit. The obtained value is distributed evenly over the number of years, through which the employee becomes entitled to severance payment, and then the amount falling to the already acquired benefit rights is discounted. This discounted amount represents the value of provision for a single employee.

The current employment cost is calculated by discounting the expected nominal value of the benefit associated on a linear basis to a single period. The nominal value of the current employment cost increases with time closer to the expected payment of benefits due to discounting.

Interest cost for the period is calculated by multiplying the initial balance of commitments (i.e. arising from work performed by employees in prior periods) by the interest rate, which is the same as a discount rate adopted for determining the current value of liabilities.

For the calculation of provisions, the following assumptions have been made:

- Assumed long-term annual growth rate of wages is the sum of two assumptions: the annual growth rate of wages and long-term annual rate of inflation.
- For discounting future payments of benefits, a discount rate was assumed at the viability level of the long-term safest securities traded on the Polish capital market, according to the balance sheet date.
- The likelihood of personnel retirements was calculated on the basis of historical data on employment fluctuation in the Company and statistics on employees leaving companies of the industry.
- Mortality and the probability of survival was adopted in accordance with the Life Expectancy Tables, 2016, published by the Central Statistical Office. It was assumed that the population employed at the Company corresponds to the Poland's average in terms of mortality.
- No provisions for retirement benefits were calculated separately; in return, the likelihood of retirement was not considered when calculating the probabilities of workers departures.
- A normal employee transition into retirement was assumed according to the Pensions Act, except for those employees who, according to the information provided by the Company, meet the conditions required to exercise the right of early retirement.

The main assumptions used by the actuary at the balance sheet date to calculate the amount of the liability are as follows:

	31 December 2017	31 December 2016
Discount rate (%)	3.30%	3.60%

Expected inflation rate (%)	2.50%	2.50%
Expected wage increase rate (%)	5.00%	5.00%

Analysis of sensitivity to changes in the basic assumptions:

	Change of discount rate by one percentage point:		Change of salary growth rate by one percentage point:	
	Up	Down	Up	Down
31 December 2017				
Influence on total current service cost and cost of interest	20	(23)	(35)	28
Influence on defined benefit liability	203	(258)	(238)	194
31 December 2016				
Influence on total current service cost and cost of interest	17	(20)	(31)	24
Influence on defined benefit liability	169	(215)	(199)	161

22. Inventory

	31 December 2017	31 December 2016
Goods	521	324
Goods in transit	–	–
Inventory allowance	(146)	(130)
Total	375	194

In the year ended 31 December 2017, the Company made inventory write-downs in the amount of PLN 18 thousand (in 2016: PLN 21 thousand). The created write-down was related to computer accessories stored in the warehouse for more than 12 months.

In the year ended 31 December 2017, the Company reversed the inventory write-down in the amount of PLN 2 thousand (in 2016 the Company did not reverse the inventory write-down).

In the year ended 31 December 2017 and 31 December 2016, the Company did not use the inventory write-down.

No category of inventories constituted a collateral for credits or loans for the year ended 31 December 2017 and for the year ended 31 December 2016. Neither at 31 December 2017 nor at 31 December 2016, there were inventories valued at the net selling price.

23. Trade and other receivables

Trade receivables (short-term)	31 December 2017	31 December 2016
Trade receivables from unrelated parties	35,540	30,892
Trade receivables from related parties	553	410
Trade receivables (net)	36,093	31,302
Allowance on doubtful accounts	642	702
Trade receivables (gross)	36,735	32,004

Other receivables	31 December 2017	31 December 2016
Other receivables from unrelated parties	1,403	2,747
Other receivables from related parties	–	53
Other receivables	1,403	2,800

Other receivables	31 December 2017	31 December 2016
Receivables arising from the valuation of long-term IT contracts	324	2,206
Advances paid to suppliers	9	46
Other trade receivables (bid bonds, deposits)	668	455
Receivables from employees	12	26
CSBF	225	7
Other receivables	165	60
Other receivables	1,403	2,800

Trade receivables are not interest-bearing.

Terms and conditions of related party transactions are set out in Note 32.

The Company has an appropriate policy in place governing the sales only to verified customers. The Company controls the collection of receivables regularly, creates allowances in accordance with the adopted accounting policy and, in justified cases, asserts its claims amicably or at court. Thus, in the opinion of the management, there is no additional credit risk beyond the level specified in the allowance for bad debts applicable to the Company's trade receivables.

At 31 December 2017, trade receivables in the amount of PLN 642 thousand (2016: PLN 702 thousand) were covered by a write-down. Changes in the allowance for receivables were as follows:

	31 December 2017	31 December 2016
Allowance write-down as at 1 January	702	548
Increase	53	161
Use	(28)	(3)
Deduction of unused amounts	(85)	(4)
Allowance write-down as at 31 December	642	702

Below is the analysis of trade and other receivables, which at 31 December 2017 and 31 December 2016 were overdue but were not considered to be irrecoverable and were not written down.

	Total	Not overdue	Overdue				
			<1 month	1 – 3 months	3-6 months	6 - 12 months	> 12 months
31 December 2017							
Trade receivables	36,093	28,133	6,336	1,569	54	1	–
Other receivables	1,403	1,403	–	–	–	–	–
31 December 2016							
Trade receivables	31,302	25,466	4,746	1,061	29	–	–
Other receivables	2,800	2,800	–	–	–	–	–

24. Cash and short-term deposits

Cash at bank bears interest at variable interest rates, the amount of which depends on the rate on overnight bank deposits. Short-term deposits are made at different periods, from one day to six months, depending on the actual Company's demand for cash, and bear interest at a fixed interest rate. Deposits with a maturity of up to three months are classified as cash equivalents. Deposits with a maturity of 3 to 6 months are presented as other current financial assets.

The fair value of cash and short-term deposits at 31 December 2017 amounts to PLN 4,598 thousand (31 December 2016: PLN 70,456 thousand).

The balance of cash and short-term deposits shown in the balance sheet and in the statement of cash flows consisted of the following items:

Cash	31 December 2017	31 December 2016
Cash at bank and in hand	4,598	1,442
Short-term deposits up to 3 months	–	69,014
Cash in the balance	4,598	70,456
Interest accrued on short-term deposits	–	(86)
Cash in cash flows statement	4,598	70,370

25. Equity

25.1. Share capital

Share capital	31 December 2017	31 December 2016
Series A ordinary shares with a nominal value of PLN 5	50,000	50,000
Series B ordinary shares with a nominal value of PLN 5	65,070	65,070
Series C ordinary shares with a nominal value of PLN 5	28,000	28,000
Series D ordinary shares with a nominal value of PLN 5	24,021	24,021
	167,091	167,091

Ordinary shares issued and fully paid up	Quantity	Value
As at 1 January 2017	33,418	167,091
Change during the year	–	–
As at 31 December 2017	33,418	167,091
As at 1 January 2016	33,418	167,091
Change during the year	–	–
As at 31 December 2016	33,418	167,091

25.1.1. Nominal value of shares

All issued shares have a nominal value of PLN 5 and have been fully paid up. The profit per share in 2017 amounted to PLN 1.41 (in 2016: PLN 1.27).

25.1.2. Rights of shareholders

All shares are ordinary shares. There are no preference shares.

25.1.3. Shareholders with significant share

As at 31 December 2017:

Shareholder	Share in share capital	% of total votes at GM
Asseco Enterprise Solutions	46.47%	46.47%
Metlife Otworthy Fundusz Emerytalny	13.47%	13.47%
Aviva Otworthy Fundusz Emerytalny Aviva BZ WBK	10.38%	10.38%
Other shareholders	29.69%	29.69%
	100.00%	100.00%

As at 31 December 2016:

Shareholder	Share in share capital	% of total votes at GM
Asseco Enterprise Solutions	46.47%	46.47%
Metlife Otwarty Fundusz Emerytalny	14.41%	14.41%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	9.96%	9.96%
Other shareholders	29.16%	29.16%
	100.00%	100.00%

25.1.4. Shares held by the Management Board and Supervisory Board

	31 December 2017		31 December 2016	
	number of shares held	shareholding in %	number of shares held	shareholding in %
Executive persons				
Wojciech Barczentewicz	461,267	1.38%	461,267	1.38%
Piotr Masłowski	715,063	2.14%	715,063	2.14%
Mariusz Lizon	183,000	0.55%	183,000	0.55%
Supervising persons				
Romuald Rutkowski	426,828	1.28%	426,828	1.28%
TOTAL	1,786,158	5.34%	1,786,158	5.34%

25.2. Premium

Supplementary capital was created from the issue of series C shares over their par value of PLN 33,600 thousand, which was less share issue costs recognised as a reduction of supplementary equity amounting to PLN 3,683 thousand and the costs associated with raising capital in connection with the merger in the amount of PLN 319 thousand. In addition, supplementary capital was created from the surplus of the issue of series D shares over their par value of PLN 33,630 thousand, which was less share issue costs recognised as a reduction of supplementary capital in the amount of PLN 805 thousand.

In April 2015, Asseco Business Solutions S.A. was returned the unlawfully levied tax on civil law transactions in the amount of PLN 120 thousand. The tax was levied in 2008 in connection with the registration of the increase of the Company's share capital and was intended to adjust the premium. As a result of the tax return, the Company's supplementary capital was adjusted. In total, the supplementary capital at 31 December 2017 was PLN 62,543 thousand.

25.3. Retained earnings and restrictions on the payment of dividend

In accordance with the provisions of the Commercial Companies Code, the Company is required to establish supplementary capital to cover for losses. This capital is supplemented by at least 8% of the profit for the financial year disclosed in the Company's statements until it reaches at least one third of the initial capital. The General Meeting decides on the use of supplementary and reserve capital; however, part of the supplementary capital, i.e. one third of the share capital, may be used only to

cover the loss recognized in the financial statements and it is divided for other purposes.

At 31 December 2017, there are no other restrictions on the payment of dividend.

26. Interest-bearing loans and borrowings

Credits and loans	31 December 2017	31 December 2016
Credit on running account	10,928	–
Revolving credit	20,002	–
Total	30,930	–
- short-term	17,578	–
- long-term	13,352	–

On 30 May 2017, Asseco Business Solutions S.A. entered into the Credit Facility Agreement with Raiffeisen Bank Polska S.A. covering the amount of PLN 65,000 thousand. The credit facility will be used as follows:

- an overdraft facility of up to PLN 45,000 thousand with the repayment date of 30 June 2020;
- a revolving loan facility of up to PLN 20,000 thousand with the repayment date of 30 September 2020.

The collateral security is a power of attorney to the bank accounts at Raiffeisen Bank Polska S.A. and a declaration of submission to enforcement. The facility's interest is WIBOR + margin.

27. Provisions

27.1. Changes in provisions

	Provision for retirement gratuity	Other provisions	In total
As at 1 January 2017	893	373	1,266
Created during the financial year	134	–	134
Change of discount, actuarial gains and losses	78	–	78
Used	–	–	–
Dissolved	–	–	–
As at 31 December 2017	1,105	373	1,478
Current as at 31 December 2017	28	373	401
Long-term as at 31 December 2017	1,077	–	1,077
	1,105	373	1,478

As at 01 January 2016	790	373	1,163
Created during the financial year	219	–	219
Change of discount, actuarial gains and losses	(105)	–	(105)
Used	(11)	–	(11)

Dissolved	–	–	–
As at 31 December 2016	893	373	1,266
Short-term as at 31 December 2016	5	373	378
Long-term as at 31 December 2016	888	–	888
	893	373	1,266

“Other provisions” item shows a provision created in conjunction with the closed proceedings before the Office of Competition and Consumer Protection as a result of which the Company was fined. The Company appealed against this decision to the District Court in Warsaw of the Court of Competition and Consumer Protection (Note 30).

28. Trade liabilities, other liabilities, accruals and deferred income

28.1. Trade liabilities and other financial liabilities (current)

Trade liabilities	31 December 2017	31 December 2016
To related parties	422	51
To other parties	3,218	2,954
Total	3,640	3,005

Financial liabilities	31 December 2017	31 December 2016
Short-term forward contracts	–	164
Total	–	164

Other liabilities	31 December 2017	31 December 2016
Amounts owed to employees as wages	439	315
Liabilities arising from the valuation of long-term IT contracts	512	361
Liabilities due to non-invoiced deliveries	259	169
Advance payments for supplies	149	7
Other liabilities	172	305
Total	1,531	1,157

Terms and conditions of payment of the above financial liabilities:

Terms and conditions of related party transactions are set out in Note 32. Trade and other liabilities are not interest-bearing.

Interest liabilities are generally settled on a monthly basis throughout the financial year.

28.2. Other non-financial liabilities

Liabilities from taxes, duties, social security and other	31 December 2017	31 December 2016
Liabilities from taxes, duties, social security and other	5,975	5,009
Liabilities to Social Security	1,711	1,476
Personal Income Tax	726	652
VAT	3,495	2,843
Other budgetary commitments	43	38
Tax liabilities on corporate income tax	4,370	3,738
Total	10,345	8,747
- short-term	10,345	8,747
- long-term	–	–

The amount of the difference between the liabilities and receivables in respect of value added tax is paid to the competent tax authorities on a monthly basis.

28.3. Accrued expenses

	31 December 2017	31 December 2016
Accrued expenses for:		
Unused leaves	2,562	2,567
Bonuses	10,867	8,697
Provision for other expenses	728	741
	14,157	12,005
Accrued income for:		
Prepaid services	320	330
Other income	–	–
	320	330
Total	14,477	12,335
- short-term	14,477	12,335
- long-term	–	–

Accrued expenses are primarily provisions for unused leave, provisions for wages of a period intended for distribution in subsequent periods, resulting from the principles of bonus systems effective Asseco Business Solutions S.A., and provisions for the costs of current

operations of the Company. The balance of deferred income concerns primarily prepayments for services rendered, such as maintenance and IT assistance.

29. Long-term contracts

In 2017 and 2016, Asseco Business Solutions S.A. implemented a number of the so-called implementation contracts (IT). In accordance with IAS 11, revenues from such contracts are recognized in accordance with the degree of their advancement. The Company measured the degree of advancement of realised implementation contracts by the cost method, i.e. by determining the ratio of costs incurred to the cost of the entire project, or by the method of "workload", i.e. by determining the ratio of work done to the total labour input on the project.

At 31 December 2017 and at 31 December 2016, the Company had no advances in respect of long-term contracts.

The amount of revenues from contracts for the year ended 31 December 2017 amounted to PLN 11,229 thousand (in the year ended 31 December 2016: PLN 9,987 thousand). Costs related to the performance of contracts for the year ended 31 December 2017 amounted to PLN 4,654 thousand (in the year ended 31 December 2016: PLN 4,266).

The receivables for the valuation of contracts for the year ended 31 December 2017 amounted to PLN 324 thousand (for the year ended 31 December 2016: PLN 2,206 thousand).

	31 December 2017	31 December 2016
Costs incurred for the implementation of IT contracts (-)	(3,421)	(3,905)
Profit (loss) for the implementation of IT contracts	6,532	5,721
Invoiced revenue for the implementation of IT contracts	10,141	7,781
Receivables arising from the valuation of IT contracts	324	2,206
Liabilities arising from the valuation of IT contracts	(512)	(361)

30. Lawsuits

The Company is a party to several lawsuits and enforcement proceedings to recover payments for delivered products and services. In addition to recovery matters, the Company is a party to a case connected with the decision of the Office of Competition and Consumer Protection of December 2013 imposing a fine on Asseco Business Solutions. The fine was associated with investigations by the OCCP related to the use of abusive clauses in agreements concluded by the Company (and its legal predecessors) with the distributors of the WAPRO-branded software. In November 2016, the Court of Appeal in Warsaw changed the contested decision of the District Court and revoked the decision of the President of the Office of Competition and Consumer Protection. The Office of Competition and Consumer Protection appealed to the highest instance against the decision of the Court of Appeal. The appeal contained, inter alia, a request for the cancellation of the contested decision of that court. In March 2017, Asseco Business Solutions S.A. responded to the appeal. In accordance with the precautionary principle, the entire amount of the fine was secured by a provision created within the 2013 expenses.

31. Contingent liabilities

At 31 December 2017 the Company had no contingent liabilities.

31.1. Tax settlement

Tax settlements and other areas of regulated activity (such as customs matters and foreign exchange) may be subject to review of administrative bodies that are entitled to impose heavy fines and penalties. No reference to fixed legal regulations in Poland reveals ambiguities and inconsistencies in the existing legislation. Frequent differences of opinion as to the legal interpretation of tax regulations both within state bodies and between government bodies and enterprises give rise to uncertainties and conflicts. These phenomena prove that the tax risk in Poland is significantly higher than that in countries with more developed tax systems.

Tax settlements may be subject to inspection for a period of five years starting from the end of the year in which the tax payment has been made. As a result of carried out inspections, the Company's tax settlements to date may be increased by an additional tax liability. In the Company's opinion, as at 31 December 2017, adequate reserves were established for known and quantifiable tax risk.

32. Information about related parties

All transactions between the Company and related parties were routine and standard transactions, respecting the arm's length principle, and their nature and conditions resulted from Company's current operations. Related party transactions made in the ordinary course of operation cover primarily the sale of software, implementation services, maintenance and software maintenance, lease of premises and the payment of dividend.

The amounts of outstanding payments are not protected and will be settled in cash. No guarantees were granted or received. In the accounting period, the costs attributable to bad or unsafe debts arising from transactions with related parties were not recognised.

The following table shows the total amount of transactions with related parties for the current and previous financial year:

Related party		<i>Sales to related parties</i>	<i>Purchase from related parties</i>	<i>Receivables from related parties</i>	<i>Liabilities to related parties</i>
The parent of the Group:					
Asseco Poland S.A.	2017	1,721	2,064	221	380
	2016	2,262	1,702	390	57
Other related parties:					
Other parties	2017	557	426	332	56
	2016	340	255	73	41

2017	2,278	2,490	553	436
2016	2,602	1,957	463	98

According to the information held by Asseco Business Solutions S.A., neither at 31 December 2017 nor at 31 December 2016 there was an outstanding balance of receivables arising from related party transactions held by the Company Executives and with the Company Executives.

According to the information held by Asseco Business Solutions S.A., neither at 31 December 2017 nor at 31 December 2016 there was an outstanding balance of liabilities arising from related party transactions held by the Company Executives and with the Company Executives.

According to the records of Asseco Business Solutions S.A., in the financial year ended 31 December 2017, the (net) value of purchase transactions for goods and services (including rental) with related parties by the Company Executives and with the Company Executives amounted to PLN 1,860 thousand (in the financial year ended 31 December 2016: PLN 1,900 thousand). The value (net) of the transactions of sales of goods and services to related entities by the Company Executives and to the Company Executives totalled PLN 7 thousand (in the financial year ended 31 December 2016: PLN 37 thousand).

32.1. The parent of the Group

Asseco Poland S.A. is the parent of Asseco Poland S.A.

In the year ended 31 December 2017 and in the year ended 31 December 2016 there were transactions between the Company and Asseco Poland S.A.; the details of related party transactions are contained in Note 31.

32.2. Entity controlling the Company

At 31 December 2017, Asseco Poland S.A. held 46.47% of ordinary shares of Asseco Business Solutions S.A. (at 31 December 2016: 46.47%).

32.3. Remuneration of Company executives

32.3.1. Remuneration paid or payable to the members of the Management Board and Supervisory Board

Remuneration and benefits of the Issuer's Members of the Management Board paid and due from 2017

Year ended 31 December 2017			
Name	Fixed remuneration components in 2017	Cost of variable remuneration components in 2017. (1)	In addition: variable components of remuneration from 2016 paid in 2017
Wojciech Barczentewicz	420	2,264	1,798
Piotr Masłowski	420	2,264	1,798
Mariusz Lizon	300	1,066	844
Andreas Enders	742	385	272
	1,882	5,979	4,712

- 1) The item includes provisions for bonuses accrued in 2017 to be paid in 2018; it contains no provisions for bonuses accrued in 2016 and paid in 2017.

Remuneration and benefits of the Issuer's Members of the Management Board paid and due from 2016

Year ended 31 December 2016			
Name	Fixed remuneration items in 2016	Cost of variable remuneration components in 2016. (1)	In addition: variable components of remuneration from 2015 paid in 2016
Wojciech Barcentewicz	420	1,877	1,440
Piotr Masłowski	420	1,877	1,440
Mariusz Lizon	300	892	683
Andreas Enders	761	310	97
	1,901	4,956	3,660

- 1) The item includes provisions for bonuses accrued in 2016 to be paid in 2017; it contains no provisions for bonuses accrued in 2015 and paid in 2016.

	Year ended 31 December 2017	Year ended 31 December 2016
Management Board		
Short-term employee benefits	13	13
Holiday provision	10	12
Post-employment benefits (retirement provision)	29	24
	52	49

Remuneration of the Issuer's Members of the Management Board due for their functions in subsidies

Name	Year ended 31 December 2017	Year ended 31 December 2016
Wojciech Barcentewicz	20	–
Piotr Masłowski	20	–
Mariusz Lizon	20	–
	60	–

Remuneration of the Members of the Supervisory Board paid and due

Remuneration paid to the Issuer's Supervisory Board Members	Year ended 31 December 2017	Year ended 31 December 2016
Jozef Klein	56	–
Romuald Rutkowski	82	150
Adam Góral	63	60
Zbigniew Pomianek	43	36
Adam Pawłowicz	15	36
Grzegorz Ogonowski	11	36
Piotr Stępnia	28	–
Supervisory Board	298	318

Romuald Rutkowski was paid a remuneration of PLN 30 thousand for performing the function of Member of the Supervisory Board of Macrologic S.A.

33. Information about the remuneration of the auditor or entity authorized to audit financial statements

The following table shows the remuneration of the entity authorized to audit accounts paid or payable for the year ended 31 December 2017 and 31 December 2016 by type of service:

Type of service	Year ended	
	31 December 2017 *	31 December 2016*
Mandatory examination of annual financial statements	221	0
Other attesting services	–	–
Tax advisory services	–	–
Other services	–	–
	221	0

* applies to Ernst&Young Audyt Polska Sp. z o.o. sp. k.

34. Objectives and principles of financial risk management

The main financial instruments used by the Company include cash, short-term deposits and bank loans. The main purpose of these financial instruments is safe investment of the surplus of the Company's free assets and collection of funds for operations. The Company also has other financial instruments such as receivables and payables for supplies and services that are created directly in the course of its business.

The company also enters into transactions involving derivatives, primarily foreign currency forward contracts. The purpose of these transactions is to manage currency risks arising in the Company's operations.

The principle currently applied by the Company and throughout the period covered by the report is trading in no financial instruments.

The main risks arising from the Company's financial instruments include interest rate risk, liquidity risk, currency risk and credit risk. The Management Board reviews and agrees on rules for the management of each of these risks - such rules are briefly discussed below. The Company also monitors market price risks relating to all financial instruments in its possession. The size of this risk in the period is shown in Note 35.

The methods adopted in carrying out a sensitivity analysis

The percentages which were subject to a sensitivity analysis – which aims to identify fluctuations in exchange rates that may affect the Company's financial result – amount to +/- 10%. In carrying out the analysis, the rate of the balance sheet date is enlarged or decreased by that value.

34.1. Interest rate risk

Changes in the market interest rates may have an adverse effect on the Company's financial result. The Company is exposed to the risk caused by changes in interest rates, i.e. changes in the value of interest accrued on loans based on variable interest rates and changes in the value of interest on bank deposits.

The purpose of risk mitigation is to minimize the costs of financial instruments based on a variable interest rate.

Interest rate risk – sensitivity to changes

The Company's debt on the balance sheet date covering loans based on a variable interest rate amounted to PLN 30,928 thousand; at the end of 2016, the Company did not have any loan-related debt. At 31 December 2017, the Company did not have bank deposits.

The following table shows the sensitivity of the gross financial result to the reasonably possible changes in interest rates, assuming that other factors remain fixed. No impact was reported on equity or total income of the Company.

	Carrying value	Increase/decrease in percentage points	Impact on accounting profit
Year ended 31 December 2017			
Bank loans	30,928	1 pp	(271)
		-1 p.p.	271
Year ended 31 December 2015			
Bank deposits	69,014	1 p.p.	546
		-1 p.p.	(546)

34.2. Currency risk

The Company is but merely exposed to currency risk by way of conducted transactions. Such a risk arises as a result of operational unit's sales or purchases in currencies other than its valuation currency. The Company's main functional currency is the Polish zloty; however, some IT contracts and purchases of goods are denominated in a foreign currency (EUR and USD).

About 14% of the Company's sales are transacted in currencies other than the presentation currency of the operational unit making the sale, while 98% of costs are denominated in that presentation currency.

Due to the fact that currency risk is negligible, the Company does not deploy procedures for managing foreign exchange risk. The Company applies the straight forward currency transactions in order to secure contracts settled in foreign currency. The Company does not apply hedge accounting.

The Company does not use financial instruments for speculative purposes.

The following table shows the sensitivity of the Company's accounting profit (due to changes in the fair value of assets and financial liabilities) and comprehensive income (due to the change in

fair value of assets and financial liabilities) to reasonably possible fluctuations in the dollar and euro assuming other factors remaining unchanged.

	Increase/decrease in exchange rate	Impact on accounting profit	Impact on total comprehensive income
31 December 2017 – EUR/PLN	+10%	254	206
	- 10%	(254)	(206)
31 December 2016 – EUR/PLN	+10%	306	248
	- 10%	(306)	(248)
31 December 2017 – USD/PLN	+10%	9	7
	- 10%	(9)	(7)
31 December 2016 – USD/PLN	+10%	(15)	(12)
	- 10%	15	12

34.3. Commodity risk

There are the following price risk factors in the operations of Asseco Business Solutions:

- competition – in all segments of the Company's activity there is a strong competition from both Polish and foreign IT companies. The largest players in the Polish global market, hitherto operating in the large enterprises sector, begin to offer solutions and implementation methodology for medium-sized enterprises.
- exchange rates – the Company enters short-term contracts in foreign currencies. These are both revenue and cost contracts for the supply of equipment and licensing of Oracle and Microsoft SQL. The Company does not apply any security measures due to a short-term risk exposure.

34.4. Credit risk

Credit risk faced by the Company may result from:

- creditworthiness of customers, thus the Company has appropriate policies in place to sell only to verified customers. All customers who wish to use trade credits are subject to initial verification procedures. If outstanding receivables occur, the Company creates write-offs to receivables and, in some cases, procures debt collection services by prior assignment of receivables. Because the transaction value with any of the recipients did not exceed 10% of the total revenue on sales, there is no significant concentration of clients, thus credit risk is limited.
- credit risk arising from creditworthiness of financial institutions (banks/brokers) - hence the co-operation with reputable financial institutions,

As for other financial assets of the Company, such as cash and short-term deposits, the Company's credit risk arises from the other party's inability to make payment, and the maximum exposure to this risk is equal to the carrying value of these instruments.

The ageing analysis of trade receivables as at 31 December 2017 and as at 31 December 2016 are shown in Note 2 of these financial statements.

The Company reports no significant concentrations of credit risk.

34.5. Financial liquidity risk

The Company monitors the risk of lack of funds by means of a tool for periodic liquidity planning. This solution takes into account the maturity deadlines of investments and financial assets (e.g. accounts receivable, other financial assets) as well as the anticipated cash flows from operating activities.

The Company aims to maintain a balance between the continuity and flexibility of financing through the use of various sources of funding.

The following table shows the Company's financial liabilities as at 31 December 2017

and 31 December 2016 according to the maturity date based on contractual undiscounted payments.

31 December 2017	On demand	Within 3 months	From 3 to 12 months	From 1 year to 5 years	Total
Interest-bearing bank loans and borrowings			17,578	13,352	30,930
Trade and other liabilities		4,338	684		5,022
	–	4,338	18,262	13,352	35,952

31 December 2016	On demand	Within 3 months	From 3 to 12 months	From 1 year to 5 years	Total
Trade and other liabilities		3,489	666		4,155
	–	3,489	666	–	4,155

35. Financial instruments

35.1. Fair values of each class of financial instruments

Fair values of financial assets and financial liabilities are determined as follows:

- fair value of financial assets and financial liabilities with standard conditions, which are traded on active, liquid markets, is determined by reference to stock prices;
- the fair value of other financial assets and liabilities (with the exception of derivatives) is determined in accordance with the generally accepted pricing models and based on

the analysis of discounted cash flows and with prices used in the current market transactions and dealer quotes for similar instruments.

The following table compares the carrying values and fair values of all the Company's financial instruments, broken down by classes and categories of assets and liabilities.

	Category in accordance with IAS 39	carrying values		fair values	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets					
Forward currency contracts	ALFVPL	291	–	291	–
Trade and other receivables	L&R	37,487	34,056	37,487	34,056
Other financial assets	L&R	–	–	–	–
Cash and short-term deposits	ALFVPL	4,598	70,456	4,598	70,456
		42,376	104,512	42,376	104,512
Financial liabilities					
Liabilities from bank loans	FLMAC	30,930	–	30,930	–
Trade and other liabilities	FLMAC	5,022	4,155	5,022	4,155
Forward currency contracts	ALFVPL	–	164	–	164
		35,952	4,319	35,952	4,319

Abbreviations used:

ALFVPL – financial assets/liabilities at fair value through profit and loss,

L&R – loans and receivables

FLMAC – other financial liabilities measured at amortized cost

According to Company's assessment, the fair value of cash, short-term deposits, trade receivables, trade liabilities and other short-term liabilities does not differ from the carrying amounts largely due to the short period of maturity.

At 31 December 2017 and at 31 December 2016, the Company held the following financial instruments measured at fair value:

31 December 2017	Level 1	Level 2	Level 3
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Financial assets valued at fair value through profit or loss				
Concluded forward contracts	291	–	291	–
	291	–	291	–

	31 December 2016	Level 1	Level 2	Level 3
Financial liabilities valued at fair value through profit or loss				
Concluded forward contracts	164	–	164	–
	164	–	164	–

- i. fair value is determined based on quoted prices offered for identical assets in active markets;*
- ii. fair value determined by using models for which the input data is observable either directly or indirectly in active markets;*
- iii. fair value determined by using models for which the input data is not observable either directly or indirectly in active markets;*

In the year ended 31 December 2017 and in the year ended 31 December 2016, there were no transfers between Level 1 and Level 2 of the fair value hierarchy, or none of the instruments was moved from/to the Level 3 of the fair value hierarchy. The fair value of financial assets and liabilities held by the Company as at 31 December 2017 and as at 31 December 2016 does not differ significantly from their carrying value.

35.2. Items of income, expenses, profit and losses included in the profit and loss account are broken down by categories of financial instruments

Year ended 31 December 2017

	Category in accordance with IAS 39	Revenues /(expenses) on interest	Gains/(losses) from exchange rates	Termination /(creation) of write-downs	Gains/(losses) from measurement	Gains/(losses) from sales/settlement of financial instruments	Total
Financial assets							
Forward currency contracts	ALFVPL	–	–	–	454	412	866
Trade and other receivables	L&R	2	(269)	32	–	–	(235)
Other financial assets	L&R	–	–	–	–	–	–
Cash and short-term deposits	ALFVPL	502	(38)	–	–	–	464
							1,095
Financial liabilities							
Interest-bearing bank loans and borrowings	ALFVPL	(755)	–	–	–	–	(755)
Forward currency contracts	ALFVPL	–	–	–	–	–	–
Trade and other liabilities	FLMAC	–	4	–	–	–	4
							(751)
Total		(251)	(303)	32	454	412	344

Year ended 31 December 2016

	Category in accordance with IAS 39	Revenues /(expenses) on interest	Gains/(losses) from exchange rates	Termination /(creation) of write- downs	Gains/(losses) from measurement	Profit /(loss) from sales of financial instruments	Total
Financial assets							
Trade and other receivables	L&R	8	116	(156)	–	–	(32)
Other financial assets	L&R	307	–	–	–	–	307
Cash and short-term deposits	ALFVPL	681	(3)	–	–	–	678
							953
Financial liabilities							
Forward currency contracts	ALFVPL	–	–	–	(165)	(27)	(192)
Trade and other liabilities	FLMAC	–	6	–	–	–	6
							(186)
Total		996	119	(156)	(165)	(27)	767

35.3. Interest rate risk

The following table shows to the carrying value of the Company's financial instruments exposed to interest rate risk, broken down by age categories.

31 December 2017

31 December 2017	<1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	In total
Floating interest rate						
Cash assets	4,598	-	-	-	-	4,598
Interest-bearing bank loans		17,578	13,350			30,928

31 December 2016

31 December 2016	<1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	In total
Floating interest rate						
Cash assets	70,456	-	-	-	-	70,456

The interest rate on financial instruments with a floating rate is updated in periods of less than one year. Interest on financial instruments with fixed interest rate is fixed throughout the period to the expiry of the maturity of these instruments. Other Company's financial instruments, which are not included in the tables above, are not interest-bearing and therefore are not subject to interest rate risk.

36. Capital management

The main objective of the Company's capital management is to secure the Company's ability to continue operations while maintaining an optimal capital structure, allowing to reduce the cost of capital and increasing the shareholder value, and maintaining a good credit rating and secure capital ratios.

The Company manages the capital structure and introduces modifications in response to changing economic conditions. In order to maintain or adjust capital structure, the Company may adjust the level of dividend paid to shareholders, return capital to shareholders or issue new shares. In the year ended 31 December 2017 and 31 December 2016, no changes were made to the objectives, principles and processes applicable in this area.

The Company monitors capital by means of the debt ratio. The Company includes interest-bearing loans and borrowings, trade liabilities and other liabilities, advances and tax liabilities minus cash and cash equivalents in its net debt. Equity includes ordinary shares, surplus from the sale of shares above their nominal value and retained earnings.

	31 December 2017	31 December 2016
Interest-bearing loans and borrowings	30,930	–
Trade and other liabilities	15,516	13,073
Less cash and short-term deposits	(4,598)	(70,456)
Net debt	41,848	(57,383)
Equity	279,633	275,008
Equity and net borrowings	321,481	217,625
Leverage ratio	14.97%	-20.87%

37. Employment structure

The Company head count in the year ended 31 December 2017 and 31 December 2016 stood as follows:

Average FTEs during the reporting period	Year ended 31 December 2017	Year ended 31 December 2016
Management Board	4*	4*
Developers	549	514
Sales personnel	46	44
Administration	43	42
Total	642	604

Employment at 31 December 2017 and at 31 December 2016 stood as follows:

FTEs on	31 December 2017	31 December 2016
Management Board	4*	4*
Developers	560	533
Sales personnel	48	45
Administration	44	44
Total	656	626

* One of the Management Board members is employed under a civil-law contract.

38. Events after the balance sheet

On 2 January 2018, Asseco Business Solutions S.A. merged with Macrologic S.A. The merger of the companies was conducted under Article 492(1)(1) of the Code of Commercial Companies and Partnerships (merger by acquisition), i.e. by the transfer of entire Macrologic's assets to Asseco Business Solutions. As a result of the merger, Macrologic S.A. was dissolved without liquidation.

39. Signatures of the Management Board Members

Name and surname	Position/Function	Signature
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Wojciech Barczentewicz	President of the Management Board	
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Piotr Masłowski	Vice-President of the Management Board	
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Andreas Enders	Vice-President of the Management Board	
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Mariusz Lizon	Member of the Management Board	
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Artur Czabaj	The person responsible for bookkeeping	
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Asseco Business Solutions S.A.

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