Asseco Business Solutions S.A.

Financial statements for the year ended 31 December 2016 together with the opinion of an independent certified auditor

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Financial statements for the year ended 31 December 2016 (in PLN thousand).

Statement of comprehensive income

for the year ended 31 December 2016

	Note	*Year ended 31 December 2016*	*Year ended 31 December 2015*
Revenues on sale		168,756	151,834
Own cost of sales	10.5	(95,993)	(91,654)
Gross profit on sales		**72,763**	**60,180**
Cost of sale	10.5	(7,389)	(7,853)
General and administrative expenses	10.5	(13,909)	(12,104)
Net profit on sales		**51,465**	**40,223**
Other operating income	10.1	520	539
Other operating expenses	10.2	(425)	(303)
Profit on operating activities		**51,560**	**40,459**
Financial income	10.3	1,115	1,158
Financial expenses	10.4	(196)	(10)
Gross profit		**52,479**	**41,607**
Income tax	11.1	(10,033)	(8,098)
Net profit from continuing operations		**42,446**	**33,509**
Discontinued operations			
Net profit for the financial year		**42,446**	**33,509**
Other total income			
- Items subject to conversion to profit/loss in subsequent reporting periods		**–**	**–**
- Items not subject to conversion to profit/loss in subsequent reporting periods		**85**	**19**
Actuarial profit/loss concerning employee benefits		*105*	*23*
Income tax on remaining comprehensive income		*(20)*	*(4)*
Other total net income		**85**	**19**
Total income for period		**42,531**	**33,528**
Earnings per share:	13		
- basic/diluted profit for the reporting period		1.27	1.00
- basic/diluted profit for continued activity in the reporting period		1.27	1.00

Financial statements for the year ended 31 December 2016 (in PLN thousand).

Balance sheet

as at 31 December 2016

ASSETS	Note	31 December 2016	31 December 2015
Non-current assets		**195,877**	**194,329**
Property, plant and equipment	15	11,721	10,277
Intangible assets	17	10,528	10,717
Goodwill	18	170,938	170,938
Long-term receivables	19.1	599	599
Deferred tax assets	11.3	1,995	1,725
Long-term accruals and deferred income	19.2	96	73
Current assets		**105,805**	**95,710**
Inventories	21	194	365
Accruals and deferred income	19.2	1,053	601
Trade receivables	22	31,302	26,952
Other receivables	22	2,800	1,873
Financial instruments valued at fair value through profit or loss		–	1
Other financial assets	23.2	–	25,260
Cash and short-term deposits	23.1	70,456	40,658
TOTAL ASSETS		**301,682**	**290,039**
LIABILITIES			
Equity			
Share capital	24	167,091	167,091
Surplus from the sale of shares above their nominal value		62,543	62,543
Retained gains		45,374	36,261
Total equity		**275,008**	**265,895**
Non-current liabilities		**888**	**781**
Provisions	20	888	781
Current liabilities		**25,786**	**23,363**
Trade liabilities	27.1	3,005	4,623
Other liabilities	27.1;27.2	6,166	5,619
Income tax liabilities	27.2	3,738	2,047
Financial liabilities	27.1	164	–
Provisions	20;26	378	382
Accruals and deferred income	27.3	12,335	10,692
Total liabilities		**26,674**	**24,144**
TOTAL EQUITY AND LIABILITIES		**301,682**	**290,039**

Financial statements for the year ended 31 December 2016 (in PLN thousand).

Cash flow statement

for the year ended 31 December 2016

	Note	*Year ended 31 December 2016*	*Year ended 31 December 2015*
Cash flows from operating activities			
Gross profit		52,479	41,607
Adjustments:		**(3,316)**	**4,877**
Amortization/Depreciation	10.6	10,992	10,847
Change in inventories		171	218
Change in receivables		(5,277)	2,986
Change in liabilities, excluding credits and loans		(1,071)	(759)
Change in prepayments and accruals		1,168	365
Change in provisions		208	106
Revenue on interest		(988)	(983)
Investment gain/(loss)		113	(119)
Income tax paid		(8,632)	(7,784)
Net cash from operating activities		**49,163**	**46,484**
Cash flows from investing activities			
Proceeds from the sale of non-financial assets		229	109
Acquisition of property, plant and equipment		(5,830)	(3,939)
Acquisition of intangible assets		(6,567)	(6,996)
Acquisition/settlement of financial assets at fair value through profit and loss		(27)	80
Established bank deposits		(3,019)	(25,188)
Cash returned from bank deposits		28,207	–
Interest received		1,059	941
Net cash from investing activities		**14,052**	**(34,993)**
Cash flows from financing activities			
Proceeds from the issue of shares		–	120
Dividend paid		(33,418)	(28,406)
Net cash from financing activities		**(33,418)**	**(28,286)**
Increase/(Decrease) in net cash and cash equivalents		29,797	(16,795)
Net differences in exchange rates		–	–
Opening cash	**23**	**40,573**	**57,368**
Closing cash	**23**	**70,370**	**40,573**

Financial statements for the year ended 31 December 2016 (in PLN thousand).

Statement of changes in equity

for the year ended 31 December 2016

	Share capital	Surplus from the sale of shares above their nominal value	Retained gains	Total equity
	12 months ended 31 December 2016			
As at 1 January 2016	**167,091**	**62,543**	**36,261**	**265,895**
Total income for period	–	–	42,531	**42,531**
Payment of the Dividend	–	–	(33,418)	**(33,418)**
As at 31 December 2016	**167,091**	**62,543**	**45,374**	**275,008**
	12 months ended 31 December 2015			
As at 1 January 2015	**167,091**	**62,423**	**31,139**	**260,653**
Total income for period	–	–	33,528	**33,528**
Payment of the Dividend	–	–	(28,406)	**(28,406)**
Other transactions	–	120	–	**120**
As at 31 December 2015	**167,091**	**62,543**	**36,261**	**265,895**

Financial statements for the year ended 31 December 2016 (in PLN thousand).

Accounting rules (policies) and supplementary notes

1. General information

The financial statements of Asseco Business Solutions S.A. cover the year ended 31 December 2016 and include comparative information for the year ended 31 December 2015.

Asseco Business Solutions S.A. ("the Company"; "unit") was established under a Notarial Deed dated 18 May 2001. The Company is headquartered 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."

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. 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 Bratislava, Slovakia, which holds 46.47% of the shares of the Company.

2. Composition of the Company's governing bodies

On 31 December 2016, 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 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

The Supervisory Board does not operate through separate committees, the committees' duties are performed by the Supervisory Board.

3. Approval of the financial statements

These financial statements were approved for publication by the Management Board on 3 March 2017.

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 that 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 20.

Deferred tax asset

The Company recognizes 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 rates

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

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 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 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 implementation of these regulations will enable

Polish tax inspection bodies to challenge the legal arrangements and agreements pursue 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 recognises 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 Polish zloty ("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 zloty (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 2015, with the exception of the application of the following changes to the standards and new interpretations applicable to annual periods beginning on 1 January 2015:

- *Amendments resulting from the review of IFRS 2010-2012*, including:
    - Amendments to IFRS 2 *Share-Based Payment*

The amendments apply prospectively and clarify the definition of market condition and the condition of acquiring rights, as well as defining the condition of service provision and the condition related to performance (results) which determine the vesting conditions.

The Company does not maintain share-based payment programmes and, consequently, the application of these amendments had no impact on the Company's financial position or performance.

- Amendments to IFRS 3 *Business Combinations*

  The amendments apply prospectively and clarify that contingent consideration, which is not classified as an equity component, is measured at fair value through profit or loss, regardless of whether it is included in IAS 39.

  The application of these amendments had no impact on the Company's financial position or performance.

- Amendments to IFRS 8 *Operating Segments*

  The amendments apply retrospectively and clarify that:

  - An entity should disclose the Management Board's judgement in the process of applying the aggregation criteria for operating segments described in para 12 of IFRS 8, including a brief description of the segments that have been combined and a description of the economic segments used in the segment similarity analysis.
  - Reconciliation of segment assets with the entity's total assets is required only if the data is presented to the chief operating decision maker.

  The application of these amendments had no impact on the Company's financial position or performance.

- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*

  The amendments apply retrospectively and clarify that an asset can be revalued on the basis of acquired observable data by adjusting the gross balance sheet value of the asset to market value or by determining the gross balance sheet value proportionally, so that the obtained balance sheet value corresponds to the market value. In addition, decommitment is the difference between the gross value and the balance sheet value of an asset.

  The amendment applies to the valuation of property, plant and equipment and intangible assets according to the revaluation model. The Company does not apply this model, therefore the application of these amendments had no impact on the Company's financial position or performance.

- Amendments to IFRS 13 *Fair Value Measurement*

  The amendments clarify that the deletion of para B5.4.12 of IFRS 9 Financial Instruments: Recognition and Measurement was not intended to change the requirements concerning the measurement of short-term receivables and liabilities. Based on the foregoing, the entity maintains the ability to measure short-term non-interest-bearing liabilities and receivables at face value if the discount effect does not have a material impact on the presented financial data.

  The application of these amendments had no impact on the Company's financial position or performance.

- Amendments to IAS 24 *Related Party Disclosures*

  The amendments apply retrospectively and clarify that the managing entity (providing the services of key management personnel) is treated as a related party for the disclosures concerning related parties. In addition, an entity that uses services provided by the managing entity is required to disclose the relevant costs incurred.

The Company does not take advantage of the services provided by the managing entity.

- *Amendments resulting from the review of IFRS 2012-2014* (including:
  - Amendments to IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*

    Assets (or disposal groups) are usually disposed of by sale or disposal to the owners. The amendments clarify that the change of one of the methods into another will not be considered a new disposal plan but will continue the original plan.

    The application of these amendments had no impact on the Company's financial position or performance.
  - Amendments to IAS 34 *Interim Financial Reporting*

    The amendments clarify that the requirements concerning interim disclosures may be met either by including any relevant disclosures in the interim financial statements or by adding references between the interim financial statements and other statements (e.g. Management Board's report). Other information in the interim financial statements must be available to users on the same terms and at the same time as the interim financial statements.

    The application of these amendments had no impact on the Company's financial position or performance.
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

  The amendments clarify the principles of IAS 16 and IAS 38 that the revenue-based amortisation method reflects the way in which an entity reaps economic benefits from an asset and not the expected use of the future economic benefits resulting from the asset. As a result, the revenue-based method cannot be applied to the depreciation of tangible assets, and only in certain circumstances its application may be correct with respect to the amortisation of intangible assets. The amendments apply prospectively.

  The application of these amendments had no impact on the Company's financial position or performance.
- Amendments to IAS 27 *Equity Method in Separate Financial Statements*

  The amendments allow entities to recognise in the separate financial statements investments in related parties, subsidiaries and joint ventures using the equity method. Entities that apply IFRS and choose to modify the way of recognising investment using the equity method will apply this amendment retrospectively.
  The entity has not applied the option introduced by the amendment in its separate financial statements.
- Amendments to IAS 1 *Disclosures*

  The amendments clarify the existing requirements of IAS 1 concerning:
  - materiality,
  - aggregation and subtotals,
  - order of notes,

- aggregation of information about the share of the profit or loss of associates and joint ventures accounted for using the equity method – disclosure in one line.

In addition, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position, profit and loss account and statement of other comprehensive income.
The application of these amendments had no impact on the Company's financial position or performance.

In addition, the following new or amended standards and interpretations are effective for the annual periods beginning on or after 1 January 2015, however, they do not apply to information presented and disclosed in the Company's financial statements:

- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

  The amendment applies to the recognition of bearer plants.

- Amendments to IFRS 11 *Accounting for Acquisition of Interest in Joint Activities*

  The amendment concerns the recognition by a partner of a joint action or acquired shares in a joint action.

- Amendments to IAS 19 *Defined Benefit Plans: Employee Benefits*

  The amendment applies to employee benefits contributed by employees or third parties in the recognition of defined benefit plans.

- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception.*

- and *amendments resulting from the review of IFRS 2010-2012*, including:

  - Amendments to IFRS 7 *Financial Instruments: Disclosures*

    I. Service contracts – the amendment clarifies that a service contract, which includes a fee, may be a continuation of involvement in a financial asset.

    II. The application of amendments to IFRS 7 (issued in December 2011) to the condensed interim financial statements.

  - Amendments to IAS 19 *Employee Benefits*

    The amendment applies to the estimation of the discount rate.

The Company has not opted for early application of any other standard, interpretation or amendment that was published but did not yet enter into force.

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 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (published on 19 January 2016) – effective for annual periods beginning on or after 1 January 2017 – not approved by the EU until the date of approval of these financial statements.

- Amendments to IAS 7 *Disclosure Initiative* (published on 29 January 2016)
  - applicable to annual periods beginning on or after 1 January 2017 – not approved by the EU until the date of approval of these financial statements,
- 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 – 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; not approved by the EU until the date of approval of these financial statements.
- 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; not approved by the EU until the date of approval of these financial statements.
- *Amendments resulting from the review of IFRS 2014-2016 concerning four standards: IFRS 1, IFRS 12, IAS 28* (published on 8 December 2016) - Amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while the Amendments to IFRS 1 and IAS 28 apply 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 22 *Foreign Currency Transactions and Advance Consideration* (published on 18 December 2014) – 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 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 IAS 10 and IAS 28 *Sales or Contribution of Assets Between an Investor and its Associate or Joint Venture* (published on 11 September 2014) – applicable to annual periods beginning on or after 1 January 2016; 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.
- IFRS 14 *Regulatory Deferral Accounts* (published on 30 January 2014) – applicable to annual periods beginning on or after 1 January 2016; 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.

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

IFRS 15 Revenues from Contracts with Customers

The standard was published on 28 May 2014 and will apply to annual 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 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 entry into force. On the date of publication of these financial statements, the Management Board is analysing the impact of this standard on the Company's financial statements.

IAS 9 Financial Instruments:

In July 2014, the IASB published the final version of IFRS 9 *Financial Instruments*. This standard replaces previous IAS 39 *Financial Instruments*: *Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 combines all 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.

For this standard, representative application is obligatory, excluding hedge accounting; at the same time, the presentation of comparable data is required. For hedge accounting, the prospective approach is required with several exceptions. The Company plans to implement the new standard as from the date of entry into force.

IFRS 9 contains new requirements and guidance on the classification and measurement of financial assets and modifies the recognition of hedging transactions.

On the day of approval of the financial statements for publication, the Management Board had not yet completed the work on the assessment of the impact of the introduction of the standard on the Company's financial statements.

IFRS 16 Leases

On the day of approval of the financial statements for publication, the Management Board had not yet completed the work on the assessment of the introduction of IFRS 16 *Leases* on the Company's application of the accounting rule in relation to the Company's financial results or performance. A detailed analysis will be carried out in the years 2017-2018.

8. Significant accounting rules

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	4.1793	3.9011
EUR	4.4240	4.2615

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 fixed 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	10 year
Machinery and equipment	2-5 year
Office equipment	2-7 year
Means of transport	5 year
Computers	2-5 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 concern 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 allowance for intangible asset with determined use is recognized in profit or loss in weight in this category, which corresponds to the function of the intangible asset.

Intangible assets with undetermined useful life 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 units 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, the 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:

	Patents and licences	*Cost of development*	*Computer software*
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

	Patents and licences	*Cost of development*	*Computer software*
Impairment test	Indefinite useful life – annual and if there is evidence of impairment. For other - annual assessment of whether there has been impairment loss.	Annual (for the assets yet to use) and if there is evidence of impairment.	Annual assessment of whether there had 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 lease agreements, which, substantially, transfer to the Company all the risks and benefits of ownership of the leased asset, are recognised in the balance sheet at the opening 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. Lease payments under an operating lease are 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 is higher that its recoverable amount, impairment takes place and a write-down is made to the level of recoverable amount. 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 dot 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 fair value decreased by any impairment charges on that financial asset as previously recognised in profit or loss, will 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. Inventories

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 amount of receivables is be determined by discounting the expected future cash flows to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money. 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 time value of money 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 subsidies

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 unutilized deferred tax assets or unutilized tax losses carried forward to subsequent years, in such amount that it is probable that future taxable income will be sufficient to allow the above-mentioned temporary differences, assets or losses to be utilized.

- except 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 offsets deferred tax assets against deferred tax provisions if and only if it has a legally enforceable right to set off receivables against liabilities for current tax, and deferred tax is linked to the same taxpayer and same tax authority.

8.20.3. Value added tax

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 91.6% 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 enable 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.

Financial statements for the year ended 31 December 2016 (in PLN thousand).

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 2016	**ERP systems**	**Unallocated**	**Activity total**
Sales to external customers	154,544	14,212	168,756
Sales 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
Income tax		(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), cash and short-term deposits (PLN 70,456 thousand), long-term receivables (PLN 599 thousand) and other unallocated assets (PLN 3,882 thousand) because these assets are managed at the level of the Company.

Year ended 31 December 2015	**ERP systems**	**Unallocated**	**Activity total**
Sales to external customers	137,683	14,151	151,834
Sales between segments	–	–	**–**
Total segment revenues	**137,683**	**14,151**	**151,834**
Gains on segment sales	**39,035**	**1,188**	**40,223**
Other net operating income/(expenses)		236	236
Net financial income/(expenses)		1,148	1,148
Income tax		(8,098)	(8,098)
Profit for period	**39,035**	**(5,526)**	**33,509**
Segment assets	218,265	71,774	**290,039**

Financial statements for the year ended 31 December 2016 (in PLN thousand).

Other information			
Capital expenditure	10,638	338	**10,976**
Amortization/Depreciation	(10,781)	(66)	**(10,847)**

1. Segment operating profit does not include financial income (PLN 1,158 thousand), financial expenses (PLN 10 thousand), other operating income (PLN 539 thousand) and other operating expenses (PLN 303 thousand) and the result of unallocated activity (PLN 1,188 thousand).
2. Segment assets do not include deferred tax (PLN 1,725 thousand), cash and short-term deposits (PLN 40,658 thousand), other financial assets (PLN 25,261 thousand), long-term receivables (PLN 599 thousand) and other unallocated assets (PLN 3,531 thousand) because these assets are managed at the level of the Company.

Geographic information

Revenues from external customers:

	Year ended 31 December 2016	Year ended 31 December 2015
Poland	147,716	138,521
Abroad, including:	21,040	13,313
– The Netherlands	7,196	6,785
– France	5,657	2,847
- Romania	1,868	362
- Germany	2,160	127
- USA	125	–
– Spain	699	716
– Portugal	342	352
- Turkey	249	258
- Czech Republic	476	636
- the Baltics (Lithuania, Latvia, Estonia) and Russia	145	436
- others	2,123	794
	168,756	**151,834**

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

Non-current assets:

	31 December 2016	31 December 2015
Poland	22,249	20,994
	22,249	**20,994**

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

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10. Income and expenses

10.1. Other operating income

Other operating income	Year ended 31 December 2016	Year ended 31 December 2015
Profit from the sale of non-financial assets	153	56
Proceeds from rental of office space	327	322
Other	40	161
Total	**520**	**539**

10.2. Other operating expenses

Other operating expenses	Year ended 31 December 2016	Year ended 31 December 2015
Donations to unrelated parties	(58)	(36)
Liquidation of fixed assets	(74)	(16)
Other operating expenses	(293)	(251)
Total	**(425)**	**(303)**

10.3. Financial income

Financial income	Year ended 31 December 2016	Year ended 31 December 2015
Income from bank interest	988	983
Other interest income	8	92
Positive exchange rates	119	–
Loss from changes in fair value of foreign currency derivatives - entered forward contracts	–	3
Gains from foreign currency derivatives execution - entered forward contracts	–	80
Total	**1,115**	**1,158**

10.4. Financial expenses

Financial expenses	Year ended 31 December 2016	Year ended 31 December 2015

Negative exchange rates	–	(9)
Other interest expense	(4)	(1)
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	**(196)**	**(10)**

10.5. Expenses by type

	Year ended 31 December 2016	Year ended 31 December 2015
The value of goods sold, materials and external services (COGS)	(13,287)	(15,413)
Consumption of materials and energy	(2,335)	(2,449)
External services	(17,349)	(16,561)
Payroll	(60,090)	(53,903)
Employee benefits	(11,549)	(10,452)
Amortization/Depreciation	(10,992)	(10,847)
Taxes and fees	(783)	(739)
Business trips	(569)	(561)
Other	(337)	(686)
Total	**(117,291)**	**(111,611)**
Own cost of sales, including:	(95,993)	(91,654)
production cost	*(82,706)*	*(76,241)*
value of goods sold, materials and external services (COGS)	*(13,287)*	*(15,413)*
Cost of sale	(7,389)	(7,853)
Cost of management and administration	(13,909)	(12,104)
Total	**(117,291)**	**(111,611)**

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

	Year ended 31 December 2016	Year ended 31 December 2015
Items included in own cost of sales:		
Depreciation of fixed assets	(3,606)	(3,198)
Amortization of intangible assets	(6,774)	(6,935)
Impairment of inventories	(21)	55
Items included in cost of sales		
Depreciation of fixed assets	(168)	(206)
Amortization of intangible assets	(1)	(24)
Items included in administrative expenses		

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Depreciation of fixed assets	(433)	(463)
Amortization of intangible assets	(10)	(21)
	(11,013)	**(10,792)**

10.7. Employee benefit costs

	Year ended 31 December 2016	Year ended 31 December 2015
Payroll	(59,759)	(53,638)
Establishment of retirement provision	(209)	(106)
Termination of retirement provision	–	–
Establishment/termination of provisions for unused leave	(122)	(159)
Total	**(60,090)**	**(53,903)**
Employee benefits, including:	(10,885)	(9,806)
Social security costs	*(9,487)*	*(8,526)*
CSBF	(664)	(646)
Total	**(11,549)**	**(10,452)**
Employee benefit costs in total, including:	(71,639)	(64,355)
Items included in own cost of sales	(56,633)	(50,500)
Items included in cost of sales	(4,851)	(5,226)
Items included in administrative expenses	(10,155)	(8,629)

11. Income tax

11.1. Tax burden

The main components of tax burden for the year ended 31 December 2016 and 31 December 2015 are as follows:

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax	(10,323)	(8,312)
Deferred income tax	290	214
Tax expense reported in profit and loss account, including:	**(10,033)**	**(8,098)**
Income tax attributed to discontinued operations	*(10,033)*	*(8,098)*

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 2016 and 31 December 2015 is as follows:

Financial statements for the year ended 31 December 2016 (in PLN thousand).

	Year ended 31 December 2016	Year ended 31 December 2015
Gross profit before tax from continuing operations	52,479	41,607
Gross profit before tax from discontinued operations	–	–
Gross profit before tax	**52,479**	**41,607**
Income tax at applicable statutory tax rate of 19% (2015 19%)	9,971	7,905
Costs which are not deductible	217	193
Use of deductible tax allowances	(155)	–
Other	–	–
According to the effective tax rate of: 19.12% (2015: 19.46%)	**10,033**	**8,098**
Income tax (charge) shown in the profit and loss account	(10,033)	(8,098)
Income tax attributed to discontinued operations	–	–
	(10,033)	**(8,098)**

11.3. Deferred income tax

Deferred tax due to the following items:

	Balance sheet		Profit and loss account for the year ended	
	31 December 2016	31 December	31 December 2016	31 December
Provision for deferred tax				
The difference between tax base and accounting value of fixed and intangible assets	(252)	(258)	6	31
Revaluation of currency contracts to fair value	(6)	(5)	(1)	(3)
Accrued sales revenues	(419)	(264)	(155)	194
Financial revenue from accrued interest	(16)	(30)	14	(8)
Other	(45)	(3)	(42)	4
Deferred tax gross provisions	**(738)**	**(560)**		
Deferred tax assets				
Retirement benefits	170	150	20	16
The difference between tax base and accounting value of fixed and intangible assets	96	94	2	15
Valuation of financial assets and liabilities at fair value	37	5	32	2
Provisions for bonuses, holidays, estimated costs	2,154	1,862	292	114
Revaluation write-downs on current assets	158	125	33	(23)
Accrued income	116	45	71	(135)
Other	2	4	(2)	3

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Deferred tax gross assets	**2,733**	**2,285**		
Deferred tax net assets	**1,995**	**1,725**		
Deferred tax charge			**270**	**210**
Change in deferred tax recognized directly in other comprehensive income			*(20)*	*(4)*
Change in deferred tax recognized in profit and loss			*290*	*214*

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 2016 amounts to PLN 7 thousand (as at 31 December 2015, PLN 3 thousand).

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

	31 December 2016	31 December 2015
Fixed assets brought to the Fund	–	–
Loans granted to employees	–	–
Cash	25	4
Liabilities to the Fund	18	1
Balance after offset	**7**	**3**

	Year ended 31 December 2016	Year ended 31 December 2015
Allowances to the Fund in the financial period	664	646

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 are data on earnings and shares, which were used in calculating basic and diluted earnings per share:

Financial statements for the year ended 31 December 2016 (in PLN thousand).

	Year ended 31 December 2016	Year ended 31 December 2015
Net profit from continuing operations	42,446	33,509
Result from discontinued operations	–	–
Net profit	42,446	33,509
Interest on redeemable preference shares convertible into ordinary shares	–	–
Net profit attributable to ordinary shareholders used in the calculation of diluted earnings per share	42,446	33,509
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	**1.27**	**1.00**

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 2015 was paid on 1 June 2016 and amounted to PLN 33,418 thousand (dividend for 2014 was paid on 1 June 2015 and amounted to PLN 28,406 thousand).

The value of the dividend per share paid for 2015 amounted to PLN 1.00 (2014: PLN 0.85)

The Company did not pay an advance for the dividend for the year 2016.

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 2016.

15. Property, plant and equipment

Year ended 31 December 2016	Land and building	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 1 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**

Financial statements for the year ended 31 December 2016 (in PLN thousand).

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**

Year ended 31 December 2015	Land and building	Machinery and equipment	Means of transport	Other fixed assets	In total
Gross value as at 1 January 2015	**2,262**	**14,297**	**6,365**	**2,225**	**25,149**
Acquisitions	18	3,508	338	75	**3,939**
Sales	–	(370)	(300)	–	**(670)**
Liquidation	–	(905)	–	(13)	**(918)**
Gross value as at 31 December 2015	**2,280**	**16,530**	**6,403**	**2,287**	**27,500**
Depreciation and write-downs as at 1 January 2015	**(645)**	**(9,230)**	**(3,294)**	**(1,665)**	**(14,834)**
Depreciation allowance for period	(231)	(2,981)	(543)	(153)	**(3,908)**
Sales	–	360	257	–	**617**
Liquidation	–	889	–	13	**902**
Depreciation and write-downs as at 31 December 2015	**(876)**	**(10,962)**	**(3,580)**	**(1,805)**	**(17,223)**
Net value as at 1 January 2015	1,617	5,067	3,071	560	**10,315**
Net value as at 31 December 2015	1,404	5,568	2,823	482	**10,277**

Neither in 2016 nor in 2015 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 2016 and as at 31 December 2015 entailed the following future minimum payments under the non-cancellable operating lease contracts:

	31 December 2016	31 December 2015
Within 1 year	4,727	5,971
In the period from 1 to 5 years	1,167	5,547
More than 5 years	–	–
	5,894	**11,518**

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16.2. Commitments under finance lease and lease purchase contracts

Neither at 31 December 2016 or at 31 December 2015, the Company did not have any finance lease liabilities or lease contracts with a purchase option.

17. Intangible assets

Year ended 31 December 2016	Patents and licence	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 1 January 2016	**(37,675)**	**–**	**(604)**	**(281)**	**(38,560)**
Amortisation write-down 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**

Year ended 31 December 2015	Patents and licence	Goodwill	IA not put into use	Other	In total
Gross value as at 1 January 2015	**40,947**	**170,938**	**884**	**444**	**213,213**
Acquisitions	676	–	–	–	**676**
Capitalization of costs of pursued development projects	–	–	6,361	–	**6,361**
Transfer from IA in progress	5,865	–	(5,865)	–	**–**
Sales	(1)	–	–	–	**(1)**
Liquidation	(34)	–	–	–	**(34)**
Gross value as at 31 December 2015	**47,453**	**170,938**	**1,380**	**444**	**220,215**
Amortization and write-downs as at 1 January 2015	**(30,730)**	**–**	**(604)**	**(281)**	**(31,615)**
Amortisation allowance for period	(6,980)	–	–	–	**(6,980)**
Sales	1	–	–	–	**1**
Liquidation	34	–	–	–	**34**
Amortization and write-downs as at 31 December 2015	**(37,675)**	**–**	**(604)**	**(281)**	**(38,560)**

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Net value as at 1 January 2015 2014	10,217	170,938	280	163	**181,598**
Net value as at 31 December 2015	9,778	170,938	776	163	**181,655**

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 SA, 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 SA with Anica System SA.

	31 December 2016	31 December 2015
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 tested annually for impairment.

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 impairment test, it should be noted that at 31 December 2016 there was no need to apply impairment to goodwill.

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	ERP Systems
Goodwill assigned to the cash-flow generating unit	170,938
Gross margin	42%
Growth rate	2% - 3%
Discount rate	9.48%
The recoverable amount of the cash-generating unit	559,300

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 2016, the recoverable amount of the unit would be PLN 538 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 506 million.

19. Other assets

19.1. Long-term receivables

Long-term receivables	31 December 2016	31 December 2015
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.

19.2. Prepayments

Prepayments	31 December 2016	31 December 2015
Prepaid maintenance services	401	278
Prepaid insurance	438	224

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Prepaid subscriptions	8	26
Prepaid training	93	47
Other prepaid services	209	99
Total	**1,149**	**674**
- short-term	1,053	601
- long-term	96	73

20. Employee benefits

20.1. 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 2016	31 December 2015
At 1 January	790	707
Establishment of provision	114	83
The costs of benefits paid	(11)	–
Termination of provision	–	–
At 31 December	**893**	**790**
- short-term	5	9
- long-term	888	781

The amounts in employee benefit schemes recognised in profit and loss:

	31 December 2016	31 December 2015
Cost of employment	89	87
Revaluation of net liabilities for employee benefits		
actuarial gains and losses resulting from changes in demographic predictions	*14*	*26*
actuarial gains and losses resulting from changes in financial predictions	*(146)*	*(41)*
actuarial gains and losses resulting from adjustments of ex-post assumptions	*26*	*(8)*
Paid benefits	(11)	–
Cost of future employment	108	–
Interest expense	23	19
Items of scheme costs recognised in profit and loss	*209*	*106*
Items of scheme costs recognized in other comprehensive income	*(106)*	*(23)*

At 31 December	**103**	**83**

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 ikelihood 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, 2015, 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.

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

	31 December 2016	31 December 2015
Discount rate (%)	3.60%	2.90%
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 2016				
Influence on total current service cost and cost of interest	17	(20)	(31)	24
Influence on defined benefit liability	169	(215)	(199)	161
31 December 2015				
Influence on total current service cost and cost of interest	19	(23)	(32)	24
Influence on defined benefit liability	174	(231)	(213)	167

21. Inventories

	31 December 2016	31 December 2015
Goods	324	474
Goods in transit	–	–
Inventory allowance	(130)	(109)
Total	**194**	**365**

In the year ended 31 December 2016, the Company made inventory write-downs in the amount of PLN 21 thousand (in 2015: PLN 27 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 2016, the Company did not reverse the inventory write-down (in 201 5 the Company reversed the inventory write-down of PLN 82 thousand).

In the year ended 31 December 2016, the Company did not utilise the inventory write-down (in 2015 the Company utilised a write-down of PLN 55 thousand in connection with the liquidation of old inventories).

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No category of inventories constituted a collateral for credits or loans for the year ended 31 December 2016 and for the year ended 31 December 2015. Neither at 31 December 2016 nor at 31 December 2015, there were no inventories valued at the net selling price.

22. Trade and other receivables

Trade receivables (short-term)	31 December 2016	31 December 2015
Trade receivables	30,892	26,648
Trade receivables from related parties	410	304
Trade receivables (net)	**31,302**	**26,952**
Allowance on doubtful accounts	702	548
Trade receivables (gross)	**32,004**	**27,500**

Other receivables	31 December 2016	31 December 2015
Other receivables from third parties	2,747	1,873
Other receivables from related parties	53	–
	2,800	**1,873**

Other receivables	31 December 2016	31 December 2015
Receivables arising from the valuation of long-term IT contracts	2,206	1,388
Advances paid to suppliers	46	37
Other trade receivables (bid bonds, deposits)	455	347
Receivables from employees	26	36
CSBF	7	4
Other receivables	60	61
	2,800	**1,873**

Trade receivables are not interest-bearing.

Terms and conditions of related party transactions are set out in Note 31.

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 2016, trade receivables in the amount of PLN 702 thousand (2015: PLN 548 thousand) were covered by a write-down. Changes in the allowance for receivables were as follows:

Financial statements for the year ended 31 December 2016 (in PLN thousand).

	31 December 2016	31 December 2015
Allowance write-down as at 1 January	548	556
Increase	161	811
Use	(3)	(52)
Deduction of unused amounts	(4)	(767)
Allowance write-down as at 31 December	**702**	**548**

Below is the analysis of trade and other receivables, which at 31 December 2016 and 31 December 2015 were overdue but were not considered to be irrecoverable and were not written down.

	Total	Not overdue	Overdue				
			< 1 mth	1 – 3mths	3 -6mths	6 – 12 mths	>12 mths
31 December 2016							
Trade receivables	31,302	25,466	4,746	1,061	29		
Other receivables	2,800	2,800	–	–	–	–	–
31 December 2015							
Trade receivables	26,952	21,654	4,563	704	111	(80)	
Other receivables	1,873	1,873	–	–	–	–	–

23. Cash and short-term deposits and other financial assets

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.

23.1. Cash and short-term deposits

The fair value of cash and short-term deposits at 31 December 2016 amounts to PLN 70,456 thousand (31 December 2015: PLN 40,658 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 2016	31 December 2015
Cash at bank and in hand	1,442	435
Short-term deposits up to 3 months	69,014	40,223
Cash in the balance	**70,456**	**40,658**

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Interest accrued on short-term deposits	(86)	(85)
Cash in cash flows statement	**70,370**	**40,573**

23.2. Other financial assets

As at 31 December 2016, the Company did not have assets classified as other financial assets; as at 31 December 2015, the Company held the following financial assets:

Financial assets	31 December 2016	31 December 2015
Deposits with the original maturity of 3 to 6 months	–	25,260
Total	**–**	**25,260**

24. Equity

24.1. Share capital

Share capital	31 December 2016	31 December 2015
Series A ordinary shares with a nominal value of PLN	50,000	50,000
Series B ordinary shares with a nominal value of PLN	65,070	65,070
Series C ordinary shares with a nominal value of PLN	28,000	28,000
Series D ordinary shares with a nominal value of PLN	24,021	24,021
	167,091	**167,091**

Ordinary shares issued and fully paid up	Quantity	Value
As at 1 January 2016	33,418	167,091
Change during the year	–	–
As at 31 December 2016	33,418	167,091
As at 1 January 2015	33,418	167,091
Change during the year	–	–
As at 31 December 2015	33,418	167,091

24.1.1. 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 2016 amounted to PLN 1.27 (in 2015: PLN 1.0).

24.1.2. Rights of shareholders

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

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24.1.3. Shareholders with significant share

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%**

As at 31 December 2015:

Shareholder	Share in share capital	% of total votes at GM
Asseco Poland S.A.	46.47%	46.47%
Metlife Otwarty Fundusz Emerytalny	10.47%	10.47%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	9.96%	9.96%
Other shareholders	33.10%	33.10%
	100.00%	**100.00%**

On 19 December 2016, as a result of the incorporation of Asseco Enterprise Solutions a.s. (AES), whose share capital was covered by a contribution in-kind, i.e. by the shares of Asseco Business Solutions S.A. contributed by the former in exchange for the shares issued by AES, Asseco Enterprise Solutions a.s. acquired Asseco BS's shares from Asseco Poland S.A.

24.1.4. Shares held by the Management Board and Supervisory Board

	31 December 2016		31 December 2015	
	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%	240,000	0.72%
Supervising persons				
Romuald Rutkowski	426,828	1.28%	426,828	1.28%
TOTAL	**1,786,158**	**5.34%**	**1,843,158**	**5.52%**

24.2. Surplus from the sale of shares above their nominal value

Supplementary capital was created from the surplus of the issuance value 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 the increase of capital in connection with the combination in the amount of PLN 319 thousand. In addition, supplementary capital has been 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.

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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 (surplus from the sale of shares above their nominal value). As a result of the tax return, the Company's supplementary capital was adjusted. In total, the supplementary capital at 31 December 2016 was PLN 62,423 thousand.

24.3. 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 use of supplementary and reserve capital is decided by the General Meeting; however, part of the supplementary capital of one third of the share capital can be used only to cover the loss disclosed in the financial statements and is not distributed for other purposes.

At 31 December 2016, there are no other restrictions on the payment of dividend.

25. Interest-bearing loans and borrowings

At 31 December 2016 (and at 31 December 2015), the Company did not have open credit lines.

26. Provisions

26.1. Changes in provisions

	Provision for retirement gratuity	Other provisions	**In total**
As at 1 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**
Current as at 31 December 2016	5	373	**378**
Non-current as at 31 December 2016	888	–	**888**
	893	**373**	**1,266**
As at 1 January 2015	707	373	**1,080**
Created during the financial year	106	–	**106**
Change of discount, actuarial gains and losses	(23)	–	**(23)**
Used	–	–	**–**

Dissolved	–	–	**–**
As at 31 December 2015	**790**	**373**	**1,163**
Current as at 31 December 2015	9	373	**382**
Non-current as at 31 December 2015	781	–	**781**
	790	**373**	**1,163**

“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 29).

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

27.1. Trade liabilities and other financial liabilities (current)

Trade liabilities	31 December 2016	31 December 2015
To related parties	51	137
To other parties	2,954	4,486
Total	**3,005**	**4,623**

Financial liabilities	31 December 2016	31 December 2015
Short-term forward contracts	164	–
Total	**164**	**–**

Other liabilities	31 December 2016	31 December 2015
Amounts owed to employees as wages	315	332
Liabilities arising from the valuation of long-term IT contracts	361	216
Liabilities due to non-invoiced deliveries	169	603
Advance payments for supplies	7	156
Other liabilities	305	99
Total	**1,157**	**1,406**

Terms and conditions of payment of the above financial liabilities:

Terms and conditions of related party transactions are set out in Note 31.

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Trade and other liabilities are not interest-bearing.

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

27.2. Other non-financial liabilities

Liabilities from taxes, duties, social security and other	31 December 2016	31 December 2015
Liabilities from taxes, duties, social security and other	5,009	4,213
Liabilities to Social Security	1,476	1,317
Personal income tax	652	575
VAT	2,843	2,287
Other budgetary commitments	38	34
Tax liabilities on corporate income tax	3,738	2,047
Total	**8,747**	**6,260**
- short-term	8,747	6,260
- 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.

27.3. Prepayments

	31 December 2016	31 December 2015
Accrued expenses for:		
Unused leaves	2,567	2,504
Bonuses	8,697	7,073
Provision for other expenses	741	618
	12,005	**10,195**
Accrued income for:		
Prepaid services	330	485
Other income	–	12
	330	**497**
Total	**12,335**	**10,692**
- short-term	12,335	10,692
- 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.

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28. Long-term contracts

In 2016 and 2015, 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 2016 and at 31 December 2015, the Company had no advances in respect of long-term contracts.

The amount of revenues from contracts for the year ended 31 December 2016 amounted to PLN 9,987 thousand (in the year ended 31 December 2015: PLN 5,414 thousand). Costs related to the execution of contracts for the year ended 31 December 2016 amounted to PLN 4,266 thousand (in the year ended 31 December 2015: PLN 3,315 thousand.

The receivables for the valuation of contracts in the year ended 31 December 2016 amounted to PLN 2,206 thousand (for the year ended 31 December 2015: PLN 1,388 thousand).

	31 December 2016	31 December 2015
Costs incurred by the implementation of IT contracts (-)	(3,905)	(3,099)
Profit (loss) by the implementation of IT contracts	**5,721**	**2,099**
Invoiced revenue by the implementation of IT contracts	7,781	4,026
Receivables arising from the valuation of IT contracts	2,206	1,388
Liabilities arising from the valuation of IT contracts	(361)	(216)

29. Lawsuits

The Company is a party to several lawsuits and enforcement proceedings to recover payments for delivered products and services. In addition to matters relating to recovery, the Company appealed to the District Court in Warsaw, the Court of Competition and Consumer Protection, against a decision of the Office of Competition and Consumer Protection imposing a fine on the Company. 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 judgement of the Court of Appeal may still be appealed against to the Supreme Court by filing further appeal. Now, the Company is expecting the possible request for cassation.

30. Contingent liabilities

At 31 December 2016, the Company had no contingent liabilities.

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30.1. Tax settlements

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 2016, adequate reserves were established for known and quantifiable tax risk.

31. Information about related parties

All transactions between the Company and the 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		*Sales to related parties*	*Purchase from related parties*	*Receivables from related parties*	*Liabilities to related parties*
The parent of the Group:					
Asseco Poland S.A.	*2016*	2,262	1,702	390	57
	2015	1,868	2,275	290	61
Other related parties:					
Other parties	*2016*	340	255	73	41
	2015	167	206	14	98
	2016	**2,602**	**1,957**	**463**	**98**
	2015	**2,035**	**2,481**	**304**	**159**

According to the information held by Asseco Business Solutions S.A., neither at 31 December 2016 nor at 31 December 2015 there was an outstanding balance of receivables arising from related party transactions held by the Company Executives and with the Company Executives.

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According to the information held by Asseco Business Solutions S.A., neither at 31 December 2016 nor at 31 December 2015 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 2016, 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 1,900 thousand (in the financial year ended 31 December 2015: PLN 1,824 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 37 thousand (in the financial year ended 31 December 2015: PLN 116 thousand).

31.1. The parent of the Group

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

In the year ended 31 December 2016 and in the year ended 31 December 2015 there were transactions between the Company and Asseco Poland S.A.; the details of related party transactions are contained in Note 31.

31.2. Entity controlling the Company

At 31 December 2016, Asseco Poland S.A. held 46.47% of ordinary shares of Asseco Business Solutions S.A. (at 31 December 2015: 0%).

Asseco Enterprise Solutions a.s. was registered on 19 December 2016. Its founder and sole shareholder is Asseco Poland S.A. The share capital of AES was fully covered by contribution in-kind in the form of shares of Asseco Business Solutions S.A.

31.3. Remuneration of Company Executives

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

Remuneration paid to the members of the Management Board and Supervisory Board	Year ended 31 December 2016	Year ended 31 December 2015
Management Board	**5,563**	**4,886**
Wojciech Barczentewicz	1,860	1,663
Piotr Masłowski	1,860	1,662
Mariusz Lizon	983	894
Andreas Enders	860	667
Supervisory Board	**318**	**318**
Romuald Rutkowski	150	150
Adam Góral	60	60
Zbigniew Pomianek	36	36
Adam Pawłowicz	36	36
Grzegorz Ogonowski	36	36
	5,881	**5,204**

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The amount of remuneration paid for the year ended 31 December 2016 contains a bonus for the Management Board for 2015 paid in 2016.

Remuneration due to the members of the Management Board and Supervisory Board	Year ended 31 December 2016	Year ended 31 December 2015
Management Board	**4,956**	**3,839**
Wojciech Barczentewicz	1,877	1,507
Piotr Masłowski	1,877	1,507
Mariusz Lizon	892	725
Andreas Enders	310	100
Supervisory Board		**–**
Romuald Rutkowski	–	–
Adam Góral	–	–
Zbigniew Pomianek	–	–
Adam Pawłowicz	–	–
Grzegorz Ogonowski	–	–
	4,956	**3,839**

The item of remuneration due for the year ended 31 December 2016 contains a management bonus for 2016 to be paid in 2017.

	Year ended 31 December 2016	Year ended 31 December 2015
Management Board		
Short-term employee benefits	13	13
Holiday provision	12	12
Post-employment benefits (retirement provision)	24	21
	49	**46**

32. 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 2016 and 31 December 2015 by the type of service:

Type of service	Year ended	
	31 December 2016 *	31 December 2015 *
Mandatory audit of the annual financial statements and the review of the interim financial statements	155	155
Other attesting services	–	–
Tax advisory services	–	–
Other services	–	–

	155	**155**

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

33. Objectives and principles of financial risk management

The main financial instruments used by the Company include cash and short-term deposits. The main purpose of these financial instruments is safe investment of the surplus of the Company's free assets. 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 34.

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.

Interest rate risk is analysed at the value changes (deviation) of +/- 15%.

33.1. Interest rate risk

Changes in the market interest rates may have an adverse effect on the Company's financial result. The Company's exposure to the risk of changing interest rates concerns primarily bank deposits.

As at 31 December 2016, the Company had no non-current liabilities on credits and loans.

Interest rate risk - sensitivity to changes

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	The impact on gross profit

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Year ended 31 December 2016 2014			
Bank deposits	69,014	+ 15%	148
		- 15%	(148)
Year ended 31 December 2015			
Bank deposits	65,483	+ 15%	147
		- 15%	(147)

33.2. 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. About 12.5% of the Company's sales transactions are denominated in currencies other than the reporting currency of the operational unit making the sale, while 99% of costs are denominated in that reporting 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 gross financial result (in conjunction with the change in fair value of assets and financial liabilities) and comprehensive income of the Company (due to changes in fair value of assets and financial liabilities) on 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 2016 – EUR/PLN	+10%	306	248
	- 10%	(306)	(248)
31 December 2015 – EUR/PLN	+10%	314	254
	- 10%	(314)	(254)
31 December 2016 – USD/PLN	+10%	(15)	(12)
	- 10%	15	12
31 December 2015 – USD/PLN	+10%	(123)	(100)
	- 10%	123	100

33.3. Commodities 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 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.

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- 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.

33.4. 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,

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 aging analysis of trade receivables as at 31 December 2016 and as at 31 December 2015 are shown in Note 22 of these financial statements.

The Company reports no significant concentrations of credit risk.

33.5. 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 2016

and 31 December 2015 according to the maturity date based on contractual undiscounted payments.

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**

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31 December 2015	On demand	Within 3 months	From 3 to 12 months	From 1 year to 5 years	Total
Trade and other liabilities	–	5,548	325	–	5,873
	–	**5,548**	**325**	**–**	**5,873**

34. Financial instruments

34.1. 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 financial liabilities (excluding derivatives) is determined in accordance with generally accepted valuation models based on discounted cash flow analysis, using the prices from observable 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 2016	31 December 2015	31 December 2016	31 December 2015
Financial assets					
Forward currency contracts	ALFVPL	–	1	–	1
Trade and other receivables	L&R	34,056	28,788	34,056	28,788
Other financial assets	L&R	–	25,260	–	25,260
Cash and short-term deposits	ALFVPL	70,456	40,658	70,456	40,658
		104,512	**94,707**	**104,512**	**94,707**
Financial liabilities					
Trade and other liabilities	FLMAC	4,155	5,873	4,155	5,873
Forward currency contracts	ALFVPL	164	–	164	–
		4,319	**5,873**	**4,319**	**5,873**

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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 the 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 2016 and at 31 December 2015, the Company held the following financial instruments measured at fair value:

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

	31 December 2015	Level 1i)	Level 2ii)	Level 3iii)
Financial assets valued at fair value through profit or loss				
Concluded forward contracts	1	–	1	–
	1	**–**	**1**	**–**

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 2016 and in the year ended 31 December 2015, 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 2016 and as at 31 December 2015 does not differ significantly from their carrying value.

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34.2. 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 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	Gains/(losses) from sales/settlement of financial instruments	Total
Financial assets							
Forward currency contracts	ALFVPL	–	–	–	–	–	–
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**

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Year ended 31 December 2015

	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							
Forward currency contracts	ALFVPL	–	–	–	3	80	83
Trade and other receivables	L&R	92	(49)	(44)	–	–	(1)
Other financial assets	L&R	72	–	–	–	–	72
Cash and short-term deposits	ALFVPL	911	20	–	–	–	931
							1,085
Financial liabilities							
Forward currency contracts	ALFVPL	–	–	–	–	–	–
Trade and other liabilities	FLMAC	–	20	–	–	–	20
							20
Total		**1,075**	**(9)**	**(44)**	**3**	**80**	**1,105**

Financial statements for the year ended 31 December 2016 (in PLN thousand).

34.3. 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 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**

31 December 2015

31 December 2015	<1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	**In total**
Floating interest rate						
Cash assets	65,918	–	–	–	–	**65,918**

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.

35. 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 2016 and 31 December 2015, 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’s net debt includes trade liabilities and other liabilities as well as income tax advances and liabilities minus cash and cash equivalents. Equity includes ordinary shares, surplus from the sale of shares above their nominal value and retained earnings.

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	31 December 2016	31 December 2015
Interest-bearing loans and borrowings	–	–
Trade and other liabilities	13,073	12,289
Less cash and short-term deposits	(70,456)	(40,658)
Net debt	**(57,383)**	**(28,369)**
Equity	275,008	265,895
Equity and net borrowings	**217,625**	**237,526**
Leverage ratio	-20.87%	-10.67%

36. Employment structure

The Company employees in the year ended 31 December 2016 and 31 December 2015 stood as follows:

Average FTEs during the reporting period	Year ended 31 December 2016	Year ended 31 December 2015
Management Board	4*	4*
Developers	514	497
Sales personnel	44	47
Administration	42	42
Total	**604**	**590**

Employment at 31 December 2016 and at 31 December 2015 stood as follows:

FTEs on	31 December 2016	31 December 2015
Management Board	4*	4*
Developers	533	494
Sales personnel	45	46
Administration	44	41
Total	**626**	**585**

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

37. Events after the balance sheet

After the balance sheet date, there were no significant events that could have a material impact on the presented results for the year 2016, not included in the current financial statements.

38. Signatures of the Management Board Members

Name and surname	Position/Function	Signature
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	
Artur Czabaj	The person responsible for bookkeeping	

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