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ANNUAL REPORT
OF ASSECO SOUTH EASTERN EUROPE GROUP
FOR THE YEAR ENDED
31 DECEMBER 2018

CONSOLIDATED FINANCIAL STATEMENTS
OF ASSECO SOUTH EASTERN EUROPE GROUP
INCLUDING THE AUDIT REPORT
BY INDEPENDENT CERTIFIED AUDITORS

Rzeszów, 20 February 2019

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Table of contents **Page**

CONSOLIDATED FINANCIAL STATEMENTS
OF ASSECO SOUTH EASTERN EUROPE GROUP
INCLUDING THE AUDIT REPORT BY INDEPENDENT CERTIFIED AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

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

FINANCIAL HIGHLIGHTS OF ASSECO SOUTH EASTERN EUROPE GROUP

		Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)	Year ended 31 Dec. 2018	Year ended 31 Dec. 2017
		PLN'000	**PLN'000**	**EUR'000**	**EUR'000**
I.	Sales revenues	670,377	570,859	157,110	134,487
II.	Operating profit	74,482	65,866	17,456	15,517
III.	Pre-tax profit	78,060	67,416	18,294	15,882
IV.	Net profit for the reporting period	65,163	55,009	15,272	12,959
V.	Net profit attributable to Shareholders of the Parent Company	**64,716**	**54,648**	**15,167**	**12,874**
VI.	Net cash provided by (used in) operating activities	120,804	94,336	28,312	22,224
VII.	Net cash provided by (used in) investing activities	(43,288)	(64,758)	(10,145)	(15,256)
VIII.	Net cash provided by (used in) financing activities	(27,651)	(23,880)	(6,480)	(5,626)
IX.	Cash and cash equivalents at the end of period	164,887	115,712	38,346	27,743
X.	Basic earnings per ordinary share for the reporting period attributable to Shareholders of the Parent Company (in PLN/EUR)	1.25	1.05	0.29	0.25
XI.	Diluted earnings per ordinary share for the reporting period attributable to Shareholders of the Parent Company (in PLN/EUR)	1.25	1.05	0.29	0.25

The selected financial data disclosed in these consolidated financial statements have been translated into EUR in the following way:

- items of the consolidated income statement and consolidated statement of cash flows have been translated into EUR at the arithmetic average of mid exchange rates as published by the National Bank of Poland and in effect on the last day of each month. These exchange rates were as follows:
  - in the period from 1 January 2018 to 31 December 2018: EUR 1 = PLN 4.2669
  - in the period from 1 January 2017 to 31 December 2017: EUR 1 = PLN 4.2447
- the Group's cash and cash equivalents as at the end of the reporting period and the comparable period of the previous year have been translated into EUR at the mid exchange rates as published by the National Bank of Poland. These exchange rates were as follows:
  - exchange rate effective on 31 December 2018: EUR 1 = PLN 4.3000
  - exchange rate effective on 31 December 2017: EUR 1 = PLN 4.1709

All figures in thousands of PLN, unless stated otherwise

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Sales revenues	1	**670,377**	**570,859**
Cost of sales (-)	2	(508,836)	(426,207)
Recognition (reversal) of impairment losses on financial assets (+/-)	2	(544)	(839)
Gross profit on sales		**160,997**	**143,813**
Selling costs (-)	2	(46,611)	(35,096)
General and administrative expenses (-)	2	(39,471)	(42,598)
Net profit on sales		**74,915**	**66,119**
Other operating income	3	1,513	1,293
Other operating expenses (-)	3	(1,644)	(1,546)
Share of profits of associates and joint ventures		*(302)*	-
Operating profit		**74,482**	**65,866**
Financial income	4	6,038	6,380
Financial expenses (-)	4	(2,460)	(4,830)
Pre-tax profit		**78,060**	**67,416**
Corporate income tax (current and deferred tax expense)	5	(12,897)	(12,407)
Net profit for the reporting period		**65,163**	**55,009**
Attributable to:			
Shareholders of the Parent Company		**64,716**	**54,648**
Non-controlling interests		447	361
Consolidated earnings per share for the reporting period attributable to Shareholders of ASEE S.A. (in PLN)			
Basic consolidated earnings per share for the reporting period	6	1.25	1.05
Diluted consolidated earnings per share for the reporting period	6	1.25	1.05

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Net profit for the reporting period	**65,163**	**55,009**
Other comprehensive income, of which:	**5,485**	**(42,886)**
Components that may be reclassified to profit or loss	*5,485*	*(42,886)*
Foreign exchange differences on translation of foreign operations	5,485	(42,886)
TOTAL COMPREHENSIVE INCOME FOR THE REPORTING PERIOD	**70,648**	**12,123**
Attributable to:		
Shareholders of the Parent Company	*70,177*	*11,804*
Non-controlling interests	*471*	*319*

All figures in thousands of PLN, unless stated otherwise

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31 Dec. 2018 (audited)	31 Dec. 2017 (restated)
Non-current assets		**627,571**	**630,553**
Property, plant and equipment	8	128,692	131,958
Investment property		632	650
Intangible assets	9	10,854	17,946
Goodwill	10	481,089	475,360
Investments in associates		111	-
Advance payments for shares in subsidiaries		-	84
Long-term financial assets	13	588	279
Long-term receivables		186	345
Deferred tax assets	5	4,785	3,190
Long-term prepayments and accrued income	15	634	741
Current assets		**361,995**	**287,762**
Inventories	11	17,006	24,792
Prepayments and accrued income	15	15,264	10,047
Trade receivables	12	132,120	110,712
Corporate income tax receivable	12	2,227	132
Other receivables from the state and local budgets	12	1,355	770
Contract assets	24	19,022	21,467
Other receivables	12	6,353	3,338
Short-term financial assets	13	3,761	792
Cash and short-term deposits	14	164,887	115,712
TOTAL ASSETS		**989,566**	**918,315**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EQUITY AND LIABILITIES	Note	31 Dec. 2018 (audited)	31 Dec. 2017 (restated)
Equity (attributable to shareholders of the Parent Company)		**763,425**	**717,740**
Share capital	16	518,942	518,942
Share premium	17	38,825	38,825
Other capitals		3,153	660
Foreign exchange differences on translation of foreign operations		(103,809)	(109,270)
Retained earnings and current net profit		306,314	268,583
Non-controlling interests	18	1,664	1,572
Total equity		**765,089**	**719,312**
Non-current liabilities		**22,095**	**29,418**
Interest-bearing bank loans and borrowings	21	17,223	22,281
Deferred tax liabilities	5	1,599	1,462
Long-term trade payables and other liabilities		-	529
Long-term provisions	19	1,982	1,823
Long-term financial liabilities	20	1,055	1,568
Contract liabilities	24	236	1,755
Current liabilities		**202,382**	**169,585**
Interest-bearing bank loans and borrowings	21	30,836	22,710
Trade payables	22	78,362	57,585
Corporate income tax payable	22	3,684	2,696
Other liabilities to the state and local budgets	22	19,333	20,400
Financial liabilities	20	829	998
Contract liabilities	24	37,166	36,319
Other liabilities	22	16,098	14,133
Short-term provisions	19	2,713	2,629
Accruals	24	13,361	12,115
TOTAL LIABILITIES		**224,477**	**199,003**
TOTAL EQUITY AND LIABILITIES		**989,566**	**918,315**

All figures in thousands of PLN, unless stated otherwise

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

		Share capital	Share premium	Foreign exchange differences on translation of foreign operations	Other capitals	Retained earnings and current net profit	Equity attributable to shareholders of the Parent Company	Non-controlling interests	Total equity
As at 1 January 2018		**518,942**	**38,825**	**(109,270)**	**660**	**268,583**	**717,740**	**1,572**	**719,312**
Net profit (loss) for the reporting period		-	-	-	-	64,716	**64,716**	447	**65,163**
Other comprehensive income		-	-	5,461	-	-	**5,461**	24	**5,485**
Total comprehensive income for the reporting period		**-**	**-**	**5,461**	**-**	**64,716**	**70,177**	**471**	**70,648**
Valuation of share-based payment plan	28	-	-	-	2,493	-	**2,493**	-	**2,493**
Dividend		-	-	-	-	(26,985)	**(26,985)**	(379)	**(27,364)**
As at 31 December 2018 (audited)		**518,942**	**38,825**	**(103,809)**	**3,153**	**306,314**	**763,425**	**1,664**	**765,089**

for the year ended 31 December 2017

		Share capital	Share premium	Foreign exchange differences on translation of foreign operations	Other capitals	Retained earnings and current net profit	Equity attributable to shareholders of the Parent Company	Non-controlling interests	Total equity
As at 1 January 2017		**518,942**	**38,825**	**(66,426)**	**-**	**238,860**	**730,201**	**2,210**	**732,411**
Net profit (loss) for the reporting period		-	-	-	-	54,648	**54,648**	361	**55,009**
Other comprehensive income		-	-	(42,844)	-	-	**(42,844)**	(42)	**(42,886)**
Total comprehensive income for the reporting period		**-**	**-**	**(42,844)**	**-**	**54,648**	**11,804**	**319**	**12,123**
Changes in the Group structure, of which:		**-**	**-**	**-**		***(16)***	***(16)***	***(686)***	***(702)***
Acquisition of non-controlling interests		-	-	-	-	*(16)*	*(16)*	*(686)*	*(702)*
Valuation of share-based payment plan	28	-	-	-	1,170	-	**1,170**	-	**1,170**
Change in actuarial assumptions for defined benefit plan		-	-	-	(510)	-	**(510)**	-	**(510)**
Dividend		-	-	-	-	(24,909)	**(24,909)**	(271)	**(25,180)**
As at 31 December 2017 (audited)		**518,942**	**38,825**	**(109,270)**	**660**	**268,583**	**717,740**	**1,572**	**719,312**

All figures in thousands of PLN, unless stated otherwise

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Cash flows – operating activities			
Pre-tax profit		78,060	67,416
Total adjustments:		**59,178**	**39,168**
Depreciation and amortization	2	45,632	40,612
Change in inventories		9,846	(8,402)
Change in receivables		(17,121)	(6,915)
Change in liabilities, accruals and provisions		12,424	2,022
Interest income and expenses		1,036	285
Gain (loss) on foreign exchange differences		(1,057)	3,760
Gain (loss) on investing activities		5,639	6,546
Costs of share-based payment plan	28	2,493	1,170
Other		286	90
Net cash generated from operating activities		**137,238**	**106,584**
Corporate income tax paid		(16,434)	(12,248)
Net cash provided by (used in) operating activities		**120,804**	**94,336**
Cash flows – investing activities			
Disposal of property, plant and equipment and intangible assets		988	799
Acquisition of property, plant and equipment, and intangible assets	8.9	(39,103)	(65,143)
Expenditures for development projects	9	(1,393)	(3,502)
Acquisition of investments in debt securities carried at amortized cost (cash deposits)	13	(6,776)	-
Disposal of investments in debt securities carried at amortized cost (cash deposits)	13	2,802	-
Acquisition of financial instruments carried at fair value through profit or loss	13	(158)	(9,495)
Disposal of financial assets carried at fair value through profit or loss	13	277	12,341
Loans collected	13	8	13
Loans granted	13	-	(21)
Interest received		80	249
Dividends received		1	1
Other		(14)	-
Net cash provided by (used in) investing activities		**(43,288)**	**(64,758)**

	Note	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Cash flows – financing activities			
Proceeds from (repayments of) short-term bank loans and borrowings		(1)	9
Proceeds from other bank loans and borrowings	21	16,024	22,017
Repayments of other bank loans and borrowings	21	(13,933)	(17,787)
Finance lease liabilities paid		(1,367)	(1,111)
Dividends paid out to shareholders of the Parent Company	7	(26,985)	(24,909)
Dividends paid out to non-controlling shareholders	18	(379)	(271)
Expenditures for the acquisition of non-controlling interests		-	(702)
Interest paid		(1,010)	(1,126)
Net cash provided by (used in) financing activities		**(27,651)**	**(23,880)**
Net increase (decrease) in cash and cash equivalents		49,865	5,698
Net foreign exchange differences		(588)	(8,194)
Cash and cash equivalents as at 1 January	14	115,562	118,058
Cash and cash equivalents as at 31 December	14	**164,839**	**115,562**

All figures in thousands of PLN, unless stated otherwise

SUPPLEMENTARY INFORMATION AND EXPLANATORY NOTES

I. GENERAL INFORMATION

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

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

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

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

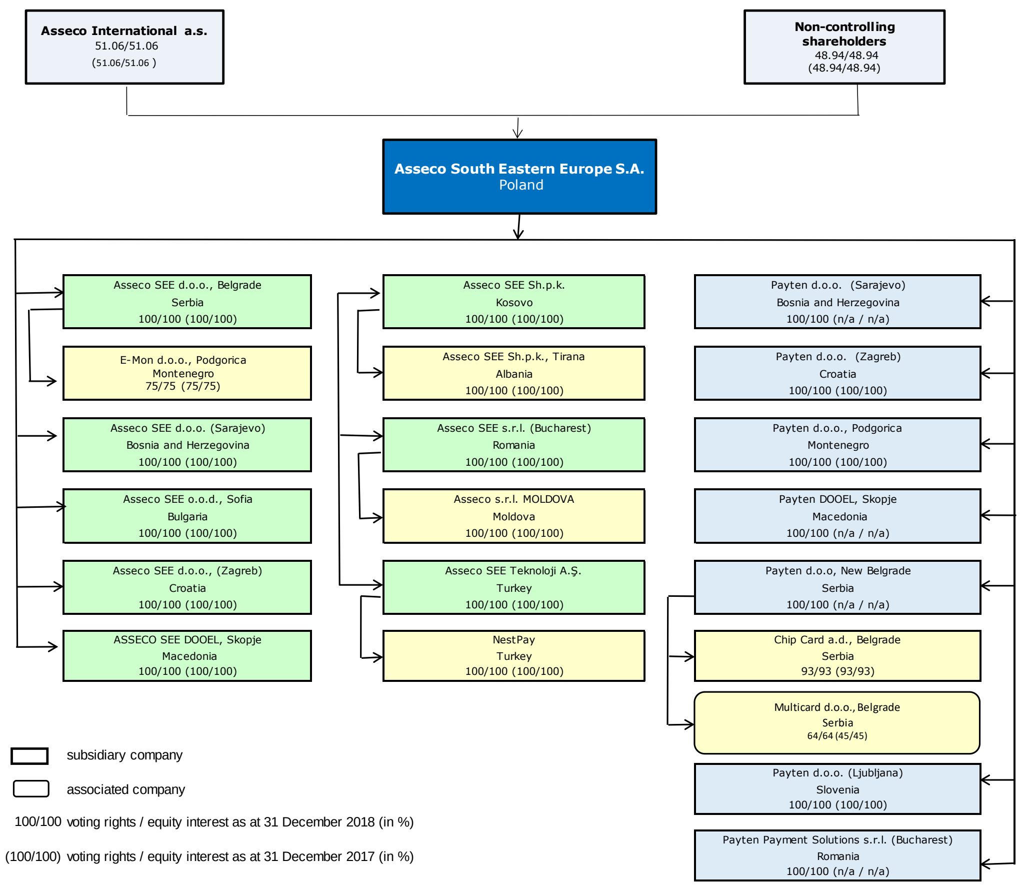
The scope of Asseco South Eastern Europe Group's core business broken down by relevant segments is described in section V of these consolidated financial statements.

These consolidated financial statements cover the year ended 31 December 2018 and contain comparable data for the year ended 31 December 2017.

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

These consolidated financial statements for the year ended 31 December 2018 have been approved for publication by the Management Board on 20 February 2019.

II. ORGANIZATIONAL STRUCTURE OF ASSECO SOUTH EASTERN EUROPE GROUP



The chart above presents the structure of ASEE Group along with equity interests and voting rights at the general meetings of shareholders/partners as at 31 December 2018.

Both as at 31 December 2018 and 31 December 2017, voting rights held by the Group in ASEE Group companies were equivalent to the Group's equity interests in these entities.

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

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

As at 31 December 2018 as well as on the date of publication of this report, this is on 20 February 2019, the Company's Management Board, Supervisory Board and Audit Committee were composed of the following persons:

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

During the reporting period as well as in the period from 31 December 2018 till the publication of this report, this is till 20 February 2019, the compositions of the Company's management and supervisory bodies remained unchanged.

IV. ACCOUNTING POLICIES APPLIED WHEN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis for the preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with the historical cost convention, except for financial instruments that are carried at fair value.

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

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

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

2. Compliance statement

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

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

3. Functional currency and presentation currency

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

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

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

4. Professional judgement and estimates

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

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

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

The Group executes a number of contracts for construction and implementation of information technology systems. Valuation of IT contracts requires determination of future operating cash flows in order to provide the fair value of revenues and expenses, as well as measurement of the progress of contract execution. The percentage of contract completion shall be measured as the relation of costs already incurred (provided such costs contribute to the progress of work) to the total costs planned, or as a portion of man-days worked out of the total work effort required. As at 31 December 2018, assets from contracts with customers (receivables from valuation of IT contracts) amounted to PLN 10,433 thousand, while liabilities arising from valuation of IT contracts (representing a portion of liabilities from contracts with customers) equalled PLN 5,900 thousand.

ii. Rates of depreciation and amortization

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

iii. Impairment testing of goodwill

As at 31 December 2018, the Management Board of the Parent Company performed an impairment test on goodwill arising from the acquisition of subsidiaries.

This task required making estimates of the recoverable amount of goodwill allocated to individual operating segments. The recoverable amount is estimated by determining future cash flows expected to be achieved from the cash-generating unit, and determining a discount rate to be subsequently used in order to calculate the net present value of those cash flows. As at 31 December 2018, goodwill arising from the acquisition of subsidiaries amounted to PLN 481,089 thousand as compared with PLN 475,360 thousand reported as at 31 December 2017.

iv. Deferred tax assets

As at 31 December 2018, the Group recognized deferred tax assets in the amount of PLN 4,785 thousand and deferred tax liabilities in the amount of PLN 1,599 thousand. In the period of 12 months ended 31 December 2018, the balance of deferred tax assets and liabilities changed by PLN 1,562 thousand, as compared with the change of PLN 272 thousand in the comparable period of 2017.

Based on the current financial budgets of our companies and applicable tax regulations, the Group's Management believes that future utilization of deferred tax assets recognized in the Group's consolidated financial statements in the amount of PLN 4,785 thousand is very likely.

v. Assessment of uncertainty over tax treatments

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

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

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

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

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

- IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019);
- IFRS 17 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- Amendments to IFRS 9 'Financial Instruments' – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);

- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' – Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture and subsequent amendments (the effective date of these amendments has been deferred until completion of the research project on the equity method of accounting);
- Amendments to IAS 19 'Employee Benefits' – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards provided as part of the 'Annual Improvements to IFRSs: 2015-2017 Cycle' (in relation to IFRS 3, IFRS 11, IAS 12 and IAS 23) with the aim of removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020);
- Interpretation IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019).

The specified effective dates have been set forth in the standards published by the International Accounting Standards Board. The actual dates of adopting these standards in the European Union may differ from those set forth in the standards and they shall be announced once they are approved for application by the European Union.

The Group is currently conducting an analysis of how the introduction of the above-mentioned standards and interpretations may affect the financial statements and accounting policies applied by the Group.

6. IFRS 16 'Leases'

In January 2016, the International Accounting Standards Board issued the International Financial Reporting Standard 16 'Leases' (IFRS 16) that replaced IAS 17 'Leases', IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC-15 'Operating Leases – Incentives', and SIC-27 'Evaluating the Substance of Transactions in the Legal Form of a Lease'. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases.

ASEE Group intends to adopt this new standard as of the required effective date, and therefore it will be first applied in our consolidated financial statements for the reporting period beginning on 1 January 2019.

According to the transition guidance provided in the standard, entities are allowed to choose from two methods for the presentation of comparable data:

a) retrospective approach to each prior period reported in compliance with IAS 8, or

b) retrospective approach while recognizing the cumulative effect of applying the new standard as at the date of its initial application.

ASEE Group will use the modified retrospective approach as described in item b, under which the comparable data for the year 2018 will not be restated, but the cumulative effect of adopting this new standard will be presented as an adjustment to the opening balance of retained earnings as at the date of its initial application, i.e. as at 1 January 2019.

Furthermore, the Group will adhere to the new guidance on identifying leases only in respect of those contracts that are entered into (or modified) on or after the date of initial application, i.e. 1 January 2019. Hence, in respect of all contracts that are concluded prior to 1 January 2019, we have decided to use a practical expedient permitted under IFRS 16 whereby it is not required to reassess whether a contract is a lease or contains a lease as at the date of initial application. Instead, the Group will apply IFRS 16 only for contracts that have been earlier identified as leases under IAS 17 and IFRIC 4.

According to the Group's initial assessment, applying the new definition of a lease would not cause any significant changes to our existing classification of contracts between those being a lease or containing a lease.

Under IAS 17 'Leases', the Group is required to classify its lease contracts distinguishing between finance leases or operating leases, and apply different accounting for those two types of leases (both as a lessor or a lease).

Group acting as a lessee

In accordance with IFRS 16 'Leases', in case of contracts where ASEE S.A. acts as a lessee, the Company will implement a single accounting model, requiring the lessee to recognize assets and liabilities in respect of all leases, subject to exceptions for short-term leases and leases of low value assets as specified in the standard. As a result, ASEE Group will recognize right-of-use assets and lease liabilities at the lease commencement date in respect of all lease contracts that transfer the right to control the use of identified assets for a definite period of time. In connection with the above, the recurring costs arising from lease payments, that earlier used to be expensed, are going to be capitalized and subsequently depreciated. Whereas, the discount of lease liabilities will be recognized as a financial expense.

In case of contracts that are commenced on or after 1 January 2019, the Group will apply the following valuation principles:

Right-of-use assets shall be initially recognized at the cost comprising:

a) the amount of initial measurement of the lease liability;
b) any lease payments made at or before the lease commencement date, less any lease incentives;
c) any initial direct costs incurred by the lessee;
d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Lease liabilities shall be initially recognized at the present value of outstanding lease payments, comprising:

a) fixed payments, less any lease incentives receivable;
b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c) amounts expected to be payable by the lessee under residual value guarantees;
d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequently to initial recognition, the Group will measure right-of-use assets in a similar manner as other non-financial fixed assets, and lease liabilities in a similar manner as financial liabilities. As a result, after initial recognition, the Group will recognize depreciation charges on the right-of-use asset and interest expenses on the lease liability, and will also classify the lease payments into two groups: payments for the principal portion will be disclosed in the statement of cash flows within financing activities, and payments for the interest portion will be disclosed in the statement of cash flows within financing activities.

The application of IFRS 16 by the Group will require making estimates that affect the measurement of lease liabilities and right-of-use assets, which estimates are in particular related to the determination of the lease term and the discount rate.

The lease term determined by the Group represents the non-cancellable period of the lease, including a period covered by an option to extend the lease if the Group is reasonably certain to exercise that option, and a period covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option.

In case of lease contracts concluded for an indefinite period, the Group shall analyze the options to terminate the lease either by the lessee or the lessor. If the lessor and the lessee have an option to terminate the lease without the other party's consent and without significant penalties, the lease term is determined based on the earliest termination period. If such earliest termination period is 12 months or less, the Group shall apply the exception for short-term leases. Contracts concluded for an indefinite period are primarily associated with locations for ATMs.

The Group has decided to use the exceptions for short-term leases and leases of low value assets as specified in the standard. As a result, in case of such contracts, lease payments will be recognized directly in costs, similarly as done so far for operating leases.

Moreover, in case of car lease contracts, the Group has decided to use a practical expedient not to separate non-lease components from lease components, and instead to account for all lease components and any associated non-lease components (car maintenance costs, insurance policies, etc.) as a single lease.

Lease payments will be discounted using the incremental borrowing rate of the Group or the rate implicit in the lease if that rate can be readily determined.

Group acting as a lessor

Accounting by lessors under IFRS 16 remained substantially unchanged from the approach required by IAS 17. Lessors will continue to treat all lease agreements according to the same criteria as specified in IAS 17, hence each lease shall be classified as an operating lease or a finance lease.

In respect of lease contracts where the Group acts as a lessor, the Group will make no adjustments following the adoption of IFRS 16. Starting from 1 January 2019, the Group will recognize these contracts in accordance with IFRS 16.

Measurement of right-of-use assets and lease liabilities at the date of initial application of IFRS 16

At the date of initial application of IFRS 16 (i.e. at 1 January 2019), for all contracts that have been earlier classified as operating leases and have not been completed prior to 1 January 2019, the Group will:

a) recognize a lease liability measured at the present value of outstanding lease payments, discounted using the incremental borrowing rate of the Group at the date of initial application;

b) recognize a right-of-use asset measured at its carrying value as if this standard was applied from the lease commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application.

Concurrently, in respect of individual lease contracts, the Group intends to use the following practical expedients:

a) exemption from the requirement to recognize right-of-use assets and lease liabilities in case of leases where the underlying asset has a low value;

b) application of a single discount rate to a portfolio of leases with similar characteristics;

c) exemption from the requirement to recognize right-of-use assets and lease liabilities in case of leases where the lease term shall end within 12 months from the date of initial application;

d) use of later acquired knowledge as in the case of determining the lease term if the contract provides for an option to extend or terminate the lease.

For all contracts that have been earlier classified as finance leases under IAS 17 and have not been completed prior to 1 January 2019, the carrying value of the right-of-use asset and lease liability as at 1 January 2019 will be determined as the carrying value of the leased asset and lease liability measured in accordance with IAS 17, directly before this date.

Summary of the impact of adopting IFRS 16 as at 1 January 2019

The table below presents the impact of IFRS 16 on the consolidated statement of financial position of ASEE Group as at the date of initial application, i.e. at 1 January 2019:

ASSETS	1 Jan. 2019
Non-current assets	**34,583**
Right-of-use assets	34,560
Deferred tax assets	23
TOTAL ASSETS	**34,583**

EQUITY AND LIABILITIES	1 Jan. 2019
Equity (attributable to shareholders of the Parent Company)	(949)
Retained earnings (deficit)	(949)
Total equity	**(949)**
Non-current liabilities	**25,647**
Long-term lease liabilities	26,265
Deferred tax liabilities	115
Deferred income	(733)
Current liabilities	**9,885**
Short-term lease liabilities	9,885
TOTAL EQUITY AND LIABILITIES	**34,583**

All figures in thousands of PLN, unless stated otherwise

Off-balance-sheet liabilities

The Group is party to a number of contracts for rental of:

a) office and warehouse space;
b) locations for ATMs;
c) transportation vehicles;
d) office equipment;
e) other assets.

As at 31 December 2018 and 31 December 2017, the above-mentioned contracts resulted in future payments, which have been described in explanatory note 27 to these financial statements.

The said contracts meet the definition of a lease under IFRS 16. Presented below is the reconciliation of liabilities under our rental contracts with lease liabilities to be recognized as at 1 January 2019.

Lease liabilities	1 Jan. 2019 (audited)
Operating lease liabilities as at 31 December 2018 (IAS 17)	**38,260**
Finance lease liabilities as at 31 December 2018 (IAS 17)	**1,875**
Amount of discount calculated using the incremental borrowing rate (-)	(3,489)
Short-term leases (-)	(460)
Leases of low value assets (-)	(36)
Lease liabilities as at 1 January 2019 (IFRS 16)	**36,150**

7. Changes in the accounting policies applied

The accounting policies adopted in the preparation of this report are consistent with those followed when preparing the financial statements for the year ended 31 December 2017, except for the adoption of amendments to standards and new interpretations effective for annual periods beginning on or after 1 January 2018:

i. IFRS 15 'Revenue from Contracts with Customers'

The International Financial Reporting Standard 15 'Revenue from Contracts with Customers' (IFRS 15), which was issued in May 2014 and subsequently amended in April 2016, provides the so-called Five-Step Model for revenue recognition in contracts with customers.

According to IFRS 15, revenue shall be recognized in an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring promised goods or services to customers.

The new standard has replaced all existing requirements for revenue recognition in compliance with IFRS. This standard applies to annual reporting periods beginning on or after 1 January 2018.

ASEE Group has adopted the new standard as of its required effective date, and therefore this standard has been first applied in our consolidated financial statements for the reporting period beginning on 1 January 2018.

The Group has applied the modified retrospective approach, which involves recognition of an adjustment to the opening balance of retained earnings in the financial statements for reporting periods starting from 1 January 2018 onwards. Under this approach, the principles established by the new standard have been applied as of 15 January 2018, only to contracts that met the definition of being not yet complete when the standard was first applied. This means that the comparable data shall not be restated, and their measurement and presentation shall comply with the accounting principles applied previously for revenue recognition which have been described in detail in the consolidated financial statements for the year ended 31 December 2017.

Due to the estimated insignificant impact of the adoption of IFRS 15 on recognition of the Group's revenues from contracts not yet completed as at 1 January 2018, the opening balance of retained earnings has not been subject to any adjustment.

Valuation of IT contracts – supply of goods and services

The Group recognizes revenues from implementation and modification services as well as own licenses provided as part of comprehensive contracts using the percentage of completion method. Contracts of such nature, as a rule, result in a separate performance obligation that consists in providing the customer with a functional IT system. In accordance with IFRS 15, revenue from such performance obligation may be recognized over time of transferring control of the supplied goods/services, as long as the contract performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed throughout the duration of the contract. Each of our contracts is subject to individual assessment in terms of meeting the above criteria. In the Group's opinion, the majority of comprehensive contracts will satisfy the above-mentioned criteria, and thus the arising revenues will be recognized according to the percentage of completion method. Up until 31 December 2017, such contracts remained in the scope of regulations of IAS 11 Construction Contracts and were accounted for by the same method.

All figures in thousands of PLN, unless stated otherwise

Licenses

In situations where a promise to grant a license is distinct from services related to the sale of such license (a separate performance obligation), revenue is recognized in accordance with the type of license that has been sold. For this purpose, we each time analyze the nature of licenses sold by the Group, making a differentiation between a right to use and a right to access. This differentiation determines the method of revenue recognition for licenses that meet the criteria of being distinct. This applies to both own and third-party licenses.

In the case of licenses with a right to use, the customer can direct the use of a license and obtain substantially all the benefits from a license. Such license is granted in order to enable the customer to use the intellectual property in the form in which it exists at the time of granting the license.

Whereas, licenses with a right to access require their provider to undertake activities that will significantly affect the intellectual property to which the customer is entitled under the license agreement, expose the customer to both positive and negative effects of activities undertaken by the provider, and do not lead to further transfer of goods or services to the customer. Such a license is granted in order to enable the customer to access the intellectual property in the form in which it exists throughout the licensing period.

In the case of licenses with a right to use, that are sold without significant related services for an indefinite period, revenue is recognized at the point in time at which the control of the license is transferred to the customer. Whereas, in the case of licenses with a right to access sold for a definite period, revenue is recognized over time for which the license was granted. However, if it turns out that a license granted for a definite period is a license with a right to use, then revenue shall be recognized at the point in time at which the license is transferred to the customer.

Warranties

In the case where a warranty is provided concurrently with a maintenance service, which in principle is a broader category than a warranty itself, such warranty will be treated as a separate performance obligation and a portion of revenue allocated to that warranty will be deferred until the warranty service is fulfilled.

In the case where a warranty is provided after the project completion and is not accompanied by any maintenance service, then the nature of such warranty needs to be analyzed in order to determine whether it is an extended warranty or the provider's assurance that the product will function as specified. In the first case, such warranty will be treated as a separate performance obligation and a portion of revenue will be deferred until the warranty service is fulfilled; whereas, in the second case, a provision for such warranty will be created.

Until 31 December 2017, we applied both the above-mentioned approaches for recognition of revenues from warranties.

Sale of hardware

Revenues from the sale of hardware and related services (e.g. design services, installation) that constitute a single performance obligation to provide a comprehensive system, where well-functioning infrastructure is one of the key elements of the project, are recognized according to the percentage of completion method.

Revenues from the sale of hardware and related services which are not part of a complex infrastructure project are recognized in the following way: equipment – at the point in time of transferring control to the customer, equipment-related services – using the percentage of completion method.

Contract assets and liabilities

Contract assets include receivables arising from valuation of IT contracts and uninvoiced deliveries. Contract liabilities include liabilities arising from valuation of IT contracts as well as deferred income from such contracts.

ii. IFRS 9 'Financial Instruments'

In July 2014, the International Accounting Standards Board issued the International Financial Reporting Standard 9 'Financial Instruments' (IFRS 9). IFRS 9 specifies three aspects involved in accounting for financial instruments: classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

a) Classification and measurement

The standard introduces the following categories of financial assets:

- measured at amortized cost,
- measured at fair value through profit or loss;
- measured at fair value through other comprehensive income.

The table below presents the classification of financial assets in accordance with IFRS 9 and IAS 39:

	31 Dec. 2017 IAS 39				1 Jan. 2018 IFRS 9		
						Measured at fair value through:	
	Loans and receivables	Measured at fair value through profit or loss	Held to maturity	Available for sale	Measured at amortized cost	profit or loss	other comprehensive income
Loans:	**96**	**-**	**-**	**-**	**96**	**-**	**-**
Loans granted to unrelated entities	88	-	-	-	88	-	-
Loans granted to employees	8	-	-	-	8	-	-
Financial assets:	**110,712**	**857**	**28**	**90**	**110,740**	**857**	**90**
Shares in companies listed on regulated markets	-	-	-	70	-	-	70
Shares in companies not listed on regulated markets	-	-	-	20	-	-	20
Investment fund units	-	33	-	-	-	33	-
Currency forward contracts	-	824	-	-	-	824	-
Bank deposits for 3 to 12 months	-	-	21	-	21	-	-
Bank deposits for over 12 months	-	-	7	-	7	-	-
Trade receivables	110,712	-	-	-	110,712	-	-

Such classification is performed at initial recognition and depends on the business model adopted by the entity to manage financial instruments and the nature of cash flows arising from these instruments.

b) Impairment of financial assets

IFRS 9 introduced a new model for estimating impairment losses on financial assets. The model of incurred losses as required by IAS 39 has been replaced with the model of impairment based on expected losses.

The expected loss impairment model applies to financial assets measured at amortized cost as well as to financial assets measured at fair value through other comprehensive income, except for investments in equity instruments.

In order to estimate impairment losses on financial assets, the Group applies the following approaches:

- ✓ general approach,
- ✓ simplified approach.

The Group applies the general approach for financial assets measured at fair value through other comprehensive income as well as for financial assets measured at amortized cost, except for trade receivables. Under the general approach, the Group estimates impairment losses on financial assets using a three-stage model based on changes in the credit risk of financial assets since their initial recognition.

Where the credit risk of financial assets has not increased significantly since initial recognition (stage 1), the Group estimates an allowance for 12-month expected credit losses. Where the credit risk of financial assets has increased significantly since initial recognition (stages 2 and 3), the Group estimates an allowance for expected credit losses over the lifetime of financial instruments. At each reporting date, the Group analyzes if there are indications of a significant increase in the credit risk of financial assets held.

All figures in thousands of PLN, unless stated otherwise

In the case of trade receivables, lease payments receivable, and assets from contracts with customers, since 1 January 2018 the Group has applied the simplified approach and measured an allowance for expected credit losses at an amount equal to expected credit losses over the full lifetime of receivables. Due to the nature of such assets, despite introducing the methodology changes required by the said standard, the impairment allowance for receivables has remained at a similar level as calculated according to the principles that were effective prior to 1 January 2018. Hence, the implementation of IFRS 9 had a minor impact on the Group's retained earnings.

8. Significant accounting policies

i. Consolidation rules

These consolidated financial statements comprise the financial statements of the Parent Company, Asseco South Eastern Europe S.A., as well as the financial data of its subsidiaries in each case prepared for the period from 1 January 2018 to 31 December 2018. The financial data of subsidiaries have been prepared using consistent accounting policies and based on uniform accounting policies applied to transactions and business events of similar nature.

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

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

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

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

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

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

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

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

ii. Combinations of businesses under common control

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

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

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

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

iii. Goodwill

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

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

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

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

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

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

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

iv. Translation of items expressed in foreign currencies

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

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

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

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

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

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

Currency	As at 31 Dec. 2018	As at 31 Dec. 2017
USD	3.7597	3.4813
EUR	4.3000	4.1709
RON	0.9229	0.8953
HRK	0.5799	0.5595
RSD	0.0363	0.0354
BGN	2.1985	2.1326
MKD	0.0697	0.0681
BAM	2.1899	2.1428
TRY	0.7108	0.9235

All figures in thousands of PLN, unless stated otherwise

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

Currency	For the year ended 31 Dec. 2018	For the year ended 31 Dec. 2017
USD	3.6227	3.7439
EUR	4.2669	4.2447
RON	0.9165	0.9282
HRK	0.5751	0.5690
RSD	0.0361	0.0351
BGN	2.1816	2.1703
MKD	0.0694	0.0690
BAM	2.1817	2.1728
TRY	0.7676	1.0295

v. Property, plant and equipment

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

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

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

The residual values, periods of useful life as well as the methods of depreciation of tangible assets are verified on an annual basis.

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

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

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

vi. Investment property

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

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

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

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

All figures in thousands of PLN, unless stated otherwise

vii. Intangible assets

Purchased separately or as a result of merger of companies

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

The period of useful life of an intangible asset shall be assessed and classified as definite or indefinite. Intangible assets with a definite period of useful life are amortized using the straight-line method over their expected useful life, and amortization charges are expensed adequately in the income statement. The periods of useful life, being the basis for determination of amortization rates, are verified on an annual basis.

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

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

Cost of development work

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

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

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

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

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

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

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

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

viii. Leases

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

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

Lease contracts, whereby the lessor retains substantially all the risks and rewards incidental to ownership of the leased asset, are considered as operating lease. Leasing fees and instalments under operating lease are recognized as operating expenses in profit or loss on a straight-line basis over the lease term. The conditional leasing fees are recognized as expense in the period when they become due.

ix. Derivative financial instruments

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

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

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

x. Inventories

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

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

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

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

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

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

xi. Prepayments and accrued income

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

Prepayments may in particular include the following items:

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

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

xii. Trade receivables

Trade receivables that do not contain a significant financing component (determined in accordance with IFRS 15) shall, at initial recognition, be measured at the transaction price.

The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to the customer, excluding any amounts charged on behalf of third parties.

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer.

Our accounting policy for the estimation of allowances for expected credit losses has been described in item 7 'Changes in the accounting policies applied' sub-item (ii) IFRS 9 'Financial Instruments'.

xiii. Cash and cash equivalents

Cash and cash equivalents presented in the statement of financial position comprise cash kept in banks and on hand, short-term bank deposits with maturities not exceeding 3 months, and other highly liquid instruments.

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

xiv. Interest-bearing bank loans and borrowings

Bank loans and borrowings are initially recognized at fair value less any transaction costs directly attributable to such financial liabilities.

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

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

xv. Trade payables

Trade payables relating to operating activities are recognized and disclosed at the amounts due for payment, and are recognized in the reporting periods which they relate to. Where the effect of the time value of money is material, the amount of payables shall be measured 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, an increase in liabilities due to the passage of time is recognized as a financial expense.

xvi. Provisions

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

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

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

Provision for warranty repairs

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

A provision for warranty repairs is created in the case where a warranty is provided after the project completion and is not accompanied by any maintenance service, and constitutes the provider's assurance that the product will function as specified.

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

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

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

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

xvii. Taxes

Current income tax

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

Deferred income tax

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

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

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

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

Value added tax

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

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

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

9. Seasonal nature of business

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

V. INFORMATION ON OPERATING SEGMENTS

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

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

Banking Solutions

The Banking Solutions segment portfolio includes the Digital Edge omni-channel solution designed to distribute banking products and services over new, alternative distribution channels and to improve business relations and communication with the customer, as well as integrated core banking systems based on the Oracle and Microsoft platforms. This segment also offers authentication security solutions, reporting systems for regulatory compliance and managerial information, as well as risk management and anti-fraud systems. The Group also offers its clients online 24x7 services and consultancy in the area of digital banking and digital transformation.

Payment Solutions

This segment provides complete payment industry solutions, for financial and non-financial institutions, supporting card and card-less transactions. The product portfolio of ASEE includes solutions for e-Commerce (NestPay®, MSU, Paratika), mobile payments (mPOS, HCE), payment card processing, as well as services related to ATMs and POS terminals. The Group delivers software, services including outsourcing and equipment, providing the highest level of expertise, maintenance and support through the entire portfolio. This segment also operates an independent network of ATMs under the brand name of MoneyGet.

Systems Integration

The Group serves the financial, industry and public administration sectors with the following business lines: development of IT infrastructure, implementations and support, ensuring continuity of business processes, automation of operations, and customized software development. This segment also includes a group of proprietary solutions of ASEE. Among such solutions are LIVE contact center, BPS content management solution, as well as Fidelity asset lifecycle management solution. Furthermore, the product portfolio of the Systems Integration segment includes LeaseFlex, a fully-fledged lease and asset lifecycle management solution.

For the year ended 31 December 2018 and as at 31 December 2018 in thousands of PLN	Banking Solutions	Payment Solutions	Systems Integration	Unallocated	Eliminations / Reconcilia-tions	Total
Sales revenues:	**179,167**	**265,552**	**266,235**	**-**	**(40,577)**	**670,377**
Sales to external customers	163,227	244,661	262,489	-	-	**670,377**
Inter/intra segment sales	15,940	20,891	3,746	-	(40,577)	**-**
Gross profit on sales	**55,193**	**64,308**	**41,496**	**-**	**-**	**160,997**
Selling costs (-)	(13,212)	(14,782)	(18,617)	-	-	**(46,611)**
General and administrative expenses (-)	(15,254)	(14,770)	(9,447)	-	-	**(39,471)**
Net profit on sales	**26,727**	**34,756**	**13,432**	**-**	**-**	**74,915**
Other operating activities	103	(143)	(91)			**(131)**
Share of profits of associates	-	(302)	-			**(302)**
Operating profit	**26,830**	**34,311**	**13,341**	**-**	**-**	**74,482**
Goodwill	*198,983*	*106,696*	*175,410*	-	-	***481,089***

For the year ended 31 December 2018 in thousands of EUR	Banking Solutions	Payment Solutions	Systems Integration	Unallocated	Eliminations / Reconcilia-tions	Total
Sales revenues:	**41,990**	**62,235**	**62,395**	**-**	**(9,510)**	**157,110**
Sales to external customers	38,254	57,339	61,517	-	-	**157,110**
Inter/intra segment sales	3,736	4,896	878	-	(9,510)	**-**
Gross profit on sales	12,935	15,071	9,725	-	-	**37,731**
Selling costs (-)	(3,096)	(3,465)	(4,363)	-	-	**(10,924)**
General and administrative expenses (-)	(3,575)	(3,461)	(2,214)	-	-	**(9,250)**
Net profit on sales	**6,264**	**8,145**	**3,148**	**-**	**-**	**17,557**
Other operating activities	24	(33)	(21)	-	-	**(30)**
Share of profits of associates	-	(71)	-	-	-	**(71)**
Operating profit	**6,288**	**8,041**	**3,127**	**-**	**-**	**17,456**

The above figures have been converted at the average exchange rate for the period from 1 January 2018 to 31 December 2018: EUR 1 = PLN 4.2669

For the year ended 31 December 2017 and as at 31 December 2017 in thousands of PLN (restated)	Banking Solutions	Payment Solutions	Systems Integration	Unallocated	Eliminations / Reconcilia-tions	Total
Sales revenues:	**173,605**	**219,751**	**210,949**	**4**	**(33,450)**	**570,859**
Sales to external customers	152,316	211,907	206,636	-	-	**570,859**
Inter/intra segment sales	21,289	7,844	4,313	4	(33,450)	**-**
Gross profit on sales	**45,881**	**58,187**	**39,745**	-	-	**143,813**
Selling costs (-)	(10,528)	(10,862)	(13,706)	-	-	**(35,096)**
General and administrative expenses (-)	(15,217)	(17,521)	(9,860)	-	-	**(42,598)**
Net profit on sales	**20,136**	**29,804**	**16,179**	-	-	**66,119**
Other operating activities	(75)	40	(218)	-	-	**(253)**
Share of profits of associates	-	-	-	-	-	**-**
Operating profit	**20,061**	**29,844**	**15,961**	**-**	**-**	**65,866**
Goodwill	*194,330*	*106,449*	*174,581*	-	-	***475,360***

For the year ended 31 December 2017 in thousands of EUR	Banking Solutions	Payment Solutions	Systems Integration	Unallocated	Eliminations / Reconcilia-tions	Total
Sales revenues:	**40,899**	**51,771**	**49,697**	**1**	**(7,881)**	**134,487**
Sales to external customers	35,883	49,923	48,681	-	-	**134,487**
Inter/intra segment sales	5,016	1,848	1,016	1	(7,881)	**-**
Gross profit on sales	**10,810**	**13,708**	**9,363**	**-**	**-**	**33,881**
Selling costs (-)	(2,480)	(2,559)	(3,229)	-	-	**(8,268)**
General and administrative expenses (-)	(3,585)	(4,128)	(2,323)	-	-	**(10,036)**
Net profit on sales	**4,745**	**7,021**	**3,811**	**-**	**-**	**15,577**
Other operating activities	(18)	9	(51)	-	-	**(60)**
Share of profits of associates	-	-	-	-	-	**-**
Operating profit	**4,727**	**7,030**	**3,760**	**-**	**-**	**15,517**

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

VI. EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Breakdown of sales revenues

Presented below are total sales revenues in a breakdown to main categories of revenues based on the type of goods and services provided:

Sales revenues	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Proprietary software and services	420,638	375,538
Third-party software and services	97,054	86,333
Hardware and infrastructure	152,685	108,988
	670,377	**570,859**

Revenues from proprietary software and services include sales of own software licenses, implementation services, system modifications, own maintenance services, as well as outsourcing of ATMs and POS terminals.

Revenues from third-party software and services include sales of third-party software licenses and third-party maintenance services.

Revenues from hardware and infrastructure include sales of equipment.

Presented below are sales revenues in a breakdown to segments and main categories of revenues:

Sales revenues: Banking Solutions	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (restated)
Proprietary software and services	154,989	142,721
Third-party software and services	3,614	4,011
Hardware and infrastructure	4,624	5,584
	163,227	**152,316**

Sales revenues: Payment Solutions	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (restated)
Proprietary software and services	172,697	151,813
Third-party software and services	5,261	5,177
Hardware and infrastructure	66,703	54,917
	244,661	**211,907**

Sales revenues: Systems Integration	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (restated)
Proprietary software and services	92,952	81,004
Third-party software and services	88,179	77,145
Hardware and infrastructure	81,358	48,487
	262,489	**206,636**

The largest portion of sales generated by ASEE Group are revenues from contracts with customers that are recognized in line with IFRS 15. However, revenues from contracts for outsourcing of ATMs and POS terminals do not constitute revenues under IFRS 15 and are treated as operating leases. The table below presents sales revenues in a breakdown to contracts with customers and outsourcing contracts:

Sales revenues:	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (restated)
Revenues from contracts with customers under IFRS 15, of which:	**594,232**	**505,302**
Revenues recognized at a specific point in time	305,199	245,723
Revenues recognized over time	289,033	259,579
Revenues other than from contracts with customers (operating leases)	76,145	65,557
	670,377	**570,859**

In the periods presented, we did not recognize any revenues from performance obligations that were satisfied or partially satisfied in previous reporting periods.

The table below discloses revenues that the Group expects to recognize in the future from performance obligations that are not satisfied or only partially satisfied as at the reporting date.

	Year ended 31 Dec. 2018 (audited)
Transaction price allocated to performance obligations to be satisfied within:	**462,160**
1 year	255,874
Over 1 year	206,286

Because the Group closely monitors its revenues for the next three years only, the amount disclosed in the line 'Over 1 year' corresponds to revenues contracted for 2020-2021. Revenues from contracts already signed, which will be implemented in subsequent years, are not recorded by the Group and are therefore not included in the table above.

All figures in thousands of PLN, unless stated otherwise

2. Breakdown of operating costs

	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (restated)
Employee benefits (-)	(201,952)	(181,836)
Third-party non-project services and outsourcing of employees (-)	(21,787)	(21,034)
Depreciation and amortization (-)	(45,632)	(40,612)
Maintenance costs of property and business cars (-)	(39,703)	(38,107)
Business trips (-)	(4,555)	(4,168)
Advertising (-)	(4,689)	(3,522)
Other operating expenses (-)	(10,328)	(12,264)
	(328,646)	**(301,543)**
Cost of sales, of which:	**(508,836)**	**(426,207)**
Cost of goods and third-party services sold (-)	(266,816)	(203,197)
Production costs (-)	(242,020)	(223,010)
Recognition (reversal) of impairment losses on financial assets (+/-)	(544)	(839)
Selling costs (-)	(46,611)	(35,096)
General and administrative expenses (-)	(39,471)	(42,598)

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

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

3. Other operating income and expenses

Other operating income	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Gain on disposal of property, plant and equipment and intangible assets	557	335
Income from letting of space	68	52
Reversal of a provision for the costs of court litigation relating to other operations	160	-
Other	728	906
	1,513	**1,293**

The line 'Other' for the year 2018 includes primarily compensations received by the Group, proceeds related to past-due liabilities written off, discounts and rebates related to prior years that were obtained by the Group companies, as well as proceeds from recharge invoices unrelated to the core business of our companies.

In 2017, the line 'Other' includes primarily compensations received by the Group, proceeds related to past-due liabilities written off, amounts received from sponsors, income from recharge invoices unrelated to the core business of our companies, and amounts returned upon the settlement of social benefits for previous years, as well as discounts and rebates related to prior years that were obtained by our companies.

Other operating expenses	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Loss on disposal of property, plant and equipment (-)	(168)	(31)
Charitable contributions to unrelated parties (-)	(237)	(229)
Liquidation costs of property, plant and equipment, intangible assets, and inventories (-)	(294)	(244)
Provisions for the costs of court litigation relating to other operations (-)	(19)	-
Creation of provisions (-)	(52)	(525)
Other (-)	(874)	(517)
	(1,644)	**(1,546)**

4. Financial income and expenses

Financial income	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Interest income on loans granted and bank deposits	1,670	1,628
Gain on valuation of derivative instruments	328	2,538
Positive foreign exchange differences	3,966	2,186
Other financial income	74	28
	6,038	**6,380**

The gain on valuation of derivative instruments amounting to PLN 328 thousand in 2018 (vs. PLN 2,538 thousand in 2017) resulted from the valuation of currency forward contracts held by ASEE S.A. and ASEE Romania which are disclosed under financial assets.

Financial expenses	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Interest expense (-)	(1,085)	(1,011)
Bank fees and commissions (-)	(75)	(80)
Negative foreign exchange differences (-)	(267)	(2,865)
Interest expenses under finance leases (-)	(99)	(114)
Loss on valuation of derivative instruments (-)	(917)	(736)
Other financial expenses (-)	(17)	(24)
	(2,460)	**(4,830)**

The loss on valuation of derivative instruments amounting to PLN 917 thousand in 2018 (vs. PLN 736 thousand in 2017) resulted from the valuation of currency forward contracts held by ASEE S.A. and ASEE Romania which are disclosed under financial assets.

All figures in thousands of PLN, unless stated otherwise

5. Corporate income tax

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

	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Current portion of income tax and prior years' adjustments	(14,459)	(12,679)
Deferred portion of income tax	1,562	272
Income tax expense as disclosed in the income statement, of which:	**(12,897)**	**(12,407)**
Income tax attributable to continuing operations	*(12,897)*	*(12,407)*

	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)	Change
Pre-tax profit	**78,060**	**67,416**	**10,644**
Current portion of income tax			
- withholding tax on dividends	(998)	(1,208)	210
- current income taxes of companies	(13,461)	(11,471)	(1,990)
	(14,459)	**(12,679)**	**(1,780)**
Deferred portion of income tax			
- change in deferred tax assets arising from tax losses	-	(85)	85
- other temporary differences	1,562	357	1,205
	1,562	**272**	**1,290**
Effective tax rate	***16.52%***	***18.40%***	***-1.88%***

In 2018, the Group's effective tax rate equalled 16.52%, as compared with 18.40% in 2017. Our effective tax rate for 2018 decreased in comparison with 2017 chiefly due to higher utilization of tax reliefs by the Group companies and lower withholding tax.

Withholding tax on dividends represents income taxes withheld against dividends received by ASEE S.A. amounting to PLN 998 thousand (vs. PLN 1,208 thousand in 2017), of which: PLN 900 thousand on dividends received by ASEE S.A. and PLN 98 thousand on dividends received by ASEE Serbia. The Company's dividend strategy for the foreseeable future does not assume making any dividend payments that might have a material impact on its fiscal position.

As at 31 December 2018, the Group recognized deferred tax assets in the amount of PLN 4,785 thousand (vs. PLN 3,190 thousand as at 31 December 2017) and deferred tax liabilities of PLN 1,599 thousand (vs. PLN 1,462 thousand as at 31 December 2017).

All figures in thousands of PLN, unless stated otherwise

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

	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Pre-tax profit	**78,060**	**67,416**
Statutory corporate income tax rate	19%	19%
Corporate income tax computed at the statutory tax rate	**(14,831)**	**(12,809)**
[A] Non-taxable income recognized in the balance sheet	**2,712**	**3,300**
- non-taxable income achieved in a special technological zone	*2,703*	*3,051*
- other	*9*	*249*
[B] Non-tax-deductible expenses recognized in the balance sheet	**(3,166)**	**(4,249)**
-non-tax-deductible expenses incurred in a technological zone	*(1,184)*	*(3,336)*
-representation expenses	*(190)*	*(122)*
-difference between the tax and accounting depreciation and amortization	*(646)*	*(101)*
-write-downs on receivables/inventories/tangible assets	*(95)*	*(4)*
-costs of stock option plan	*(475)*	*(223)*
-remuneration of the Supervisory Board	*(153)*	*-*
-other	*(423)*	*(463)*
[C] Utilization of tax losses and change in deferred tax assets arising from tax losses	**-**	**(472)**
[D] Utilization of tax credits and other tax deductibles	**1,037**	**603**
[E] Change in estimates of deferred tax assets recognized on the so-called "external temporary differences" resulting from dividend payments within the Group	**(1,623)**	**(1,862)**
[F] Difference due to different rates of corporate income tax paid abroad	**3,046**	**2,963**
[G] Correction of an error in the calculation of deferred tax in previous reporting periods (+) / (-)	**(72)**	**119**
Corporate income tax at the effective tax rate of 16.52% in 2018, and 18.40% in 2017	**(12,897)**	**(12,407)**

	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Deferred tax assets		
Difference between tax depreciation and accounting depreciation	1,910	1,447
Valuation of financial assets and/or financial liabilities at fair value	74	71
Accruals, provisions and other liabilities	1,960	1,582
Allowances for receivables	272	225
Impairment losses on inventories	1,361	1,272
Losses deductible against future taxable income	46	45
Other temporary differences	5	3
Total	**5,628**	**4,645**
Deferred tax liabilities		
Difference between tax depreciation and accounting depreciation	1,916	2,083
Valuation of financial assets and/or financial liabilities at fair value	15	156
Prepayments and accrued income	422	620
Other temporary differences	89	57
Total	**2,442**	**2,916**
Deferred tax assets (+), net of deferred tax liabilities	**4,785**	**3,190**
Deferred tax liabilities (-), net of deferred tax assets	**1,599**	**1,462**

All figures in thousands of PLN, unless stated otherwise

6. Earnings per share

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

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

	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Consolidated net profit for the reporting period attributable to Shareholders of ASEE S.A.	**64,716**	**54,648**
Weighted average number of ordinary shares outstanding, used for calculation of basic earnings per share	51,894,251	51,894,251
Consolidated earnings per share for the reporting period attributable to Shareholders of ASEE S.A. (in PLN)		
Basic consolidated earnings per share for the reporting period	1.25	1.05
Diluted consolidated earnings per share for the reporting period	1.25	1.05

7. Information on dividends paid out or declared

The Annual General Meeting of Shareholders of Asseco South Eastern Europe S.A. seated in Rzeszów, acting on the basis of art. 395 § 2 item 2) of the Commercial Companies Code as well as pursuant to § 12 sec. 4 item 2) of the Company's Articles of Association, on 24 April 2018 decided that the net profit for the financial year 2017 amounting to PLN 19,830,989.19 and a portion of the capital reserve (established pursuant to Resolution No. 7 of the Company's Annual General Meeting of Shareholders of 31 March 2016), shall be distributed as follows:

a) the amount of PLN 1,586,479.14 from the net profit for the financial year 2017 has been allocated to the reserve capital pursuant to art. 396 § 1 of the Commercial Companies Code;

b) the amount of PLN 18,244,510.05 from the net profit for the financial year 2017 as well as the amount of PLN 8,740,500.47 representing a portion of the above-mentioned capital reserve have been allocated for distribution among all of the Company's shareholders by payment of a dividend amounting to PLN 0.52 per share.

The Company's Annual General Meeting of Shareholders established 29 June 2018 as the dividend record date. The dividend was paid out on 12 July 2018. The number of shares eligible for dividend was 51,894,251.

All figures in thousands of PLN, unless stated otherwise

8. Property, plant and equipment

for the year ended 31 December 2018 (audited)	Buildings and land	Outsourcing and other equipment	Transportation vehicles	Other tangible assets	Tangible assets under construction	Total
As at 1 January 2018, less accumulated depreciation	**4,560**	**108,628**	**6,624**	**1,970**	**10,176**	**131,958**
Additions, of which:	-	39,444	2,053	1,092	15,174	**57,763**
Purchases	-	18,651	1,417	1,073	15,174	**36,315**
Finance leases	-	-	632	-	-	**632**
Transfers from tangible assets under construction	-	20,793	-	-	-	**20,793**
Other changes	-	-	4	19	-	**23**
Reductions, of which:	(116)	(38,897)	(2,715)	(633)	(21,576)	**(63,937)**
Depreciation charges for the reporting period (-)	(116)	(37,672)	(2,344)	(614)	-	**(40,746)**
Disposal and liquidation (-)	-	(478)	(371)	(19)	-	**(868)**
Transfers from tangible assets under construction (-)	-	-	-	-	(20,793)	**(20,793)**
Transfers to inventories (-)	-	(697)	-	-	(665)	**(1,362)**
Other changes (-)	-	(50)	-	-	(118)	**(168)**
Foreign exchange differences on translation of foreign operations (+/-)	113	2,613	115	(217)	284	**2,908**
As at 31 December 2018, less accumulated depreciation	**4,557**	**111,788**	**6,077**	**2,212**	**4,058**	**128,692**
As at 1 January 2018						
Gross value	5,448	208,532	15,283	7,549	10,176	**246,988**
Accumulated depreciation (-)	(888)	(99,904)	(8,659)	(5,579)	-	**(115,030)**
Net book value as at 1 January 2018	**4,560**	**108,628**	**6,624**	**1,970**	**10,176**	**131,958**
As at 31 December 2018						
Gross value	5,606	233,500	14,257	7,780	4,058	**265,201**
Accumulated depreciation (-)	(1,049)	(121,712)	(8,180)	(5,568)	-	**(136,509)**
Net book value as at 31 Dec. 2018	**4,557**	**111,788**	**6,077**	**2,212**	**4,058**	**128,692**

Some pieces of equipment have been transferred from inventories to tangible assets because they are utilized in the performance of our outsourcing contracts.

Tangible assets under construction amounting to PLN 4,047 thousand (vs. PLN 10,176 thousand as at 31 December 2017) comprised mainly infrastructure that is being prepared to be rented in the outsourcing model.

for the year ended 31 December 2017 (audited)	Buildings and land	Outsourcing and other equipment	Transportation vehicles	Other tangible assets	Tangible assets under construction	Total
As at 1 January 2017, less accumulated depreciation	**4,307**	**86,544**	**6,621**	**1,240**	**3,449**	**102,161**
Additions, of which:	424	57,630	2,793	1,452	28,714	**91,013**
Purchases	-	30,456	1,825	1,389	28,458	**62,128**
Finance leases	-	-	964	-	-	**964**
Transfers from tangible assets under construction	-	21,737	-	-	-	**21,737**
Transfers from inventories and investment property	424	5,437	-	-	256	**6,117**
Other changes	-	-	4	63	-	**67**
Reductions, of which:	(137)	(30,965)	(2,479)	(493)	(21,737)	**(55,811)**
Depreciation charges for the reporting period (-)	(113)	(30,424)	(2,178)	(487)	-	**(33,202)**
Disposal and liquidation (-)	-	(431)	(301)	(6)	-	**(738)**
Transfers from tangible assets under construction (-)	-	-	-	-	(21,737)	**(21,737)**
Other changes (-)	(24)	(110)	-	-	-	**(134)**
Foreign exchange differences on translation of foreign operations (+/-)	(34)	(4,581)	(311)	(229)	(250)	**(5,405)**
As at 31 December 2017, less accumulated depreciation	**4,560**	**108,628**	**6,624**	**1,970**	**10,176**	**131,958**
As at 1 January 2017						
Gross value	4,902	168,412	14,603	5,561	3,449	**196,927**
Accumulated depreciation (-)	(595)	(81,868)	(7,982)	(4,321)	-	**(94,766)**
Net book value as at 1 January 2017	**4,307**	**86,544**	**6,621**	**1,240**	**3,449**	**102,161**
As at 31 December 2017						
Gross value	5,448	208,532	15,283	7,549	10,176	**246,988**
Accumulated depreciation (-)	(888)	(99,904)	(8,659)	(5,579)	-	**(115,030)**
Net book value as at 31 Dec. 2017	**4,560**	**108,628**	**6,624**	**1,970**	**10,176**	**131,958**

As at 31 December 2018, tangible assets with a book value of PLN 1,076 thousand served as collateral for bank loans.

As at 31 December 2017, tangible assets with a book value of PLN 1,043 thousand served as collateral for bank loans.

All figures in thousands of PLN, unless stated otherwise

9. Intangible assets

for the year ended 31 December 2018 (audited)	Own software and licenses	Costs of development projects in progress	Software, patents and licenses purchased	Total
As at 1 January 2018, less accumulated amortization	**8,147**	**2,211**	**7,588**	**17,946**
Additions, of which:	868	1,393	2,524	**4,785**
Purchases	-	-	2,524	**2,524**
Capitalization of project development costs	-	1,393	-	**1,393**
Transfer of the costs of completed development projects	868	-	-	**868**
Reductions, of which:	(6,854)	(1,181)	(2,786)	**(10,821)**
Amortization charges for the reporting period (-)	(2,068)	-	(2,786)	**(4,854)**
Transfer of the costs of completed development projects (-)	-	(868)	-	**(868)**
Liquidation and impairment charges (-)	(4,786)	(313)	-	**(5,099)**
Foreign exchange differences on translation of foreign operations (+/-)	(813)	(201)	(42)	**(1,056)**
As at 31 December 2018, less accumulated amortization	**1,348**	**2,222**	**7,284**	**10,854**
As at 1 January 2018				
Gross value	33,987	2,211	27,881	**64,079**
Accumulated amortization (-)	(25,840)	-	(20,293)	**(46,133)**
Net book value as at 1 January 2018	**8,147**	**2,211**	**7,588**	**17,946**
As at 31 December 2018				
Gross value	7,599	2,222	29,962	**39,783**
Accumulated amortization (-)	(6,251)	-	(22,678)	**(28,929)**
Net book value as at 31 December 2018	**1,348**	**2,222**	**7,284**	**10,854**

As at 31 December 2018, intangible assets did not serve as collateral for any bank loans.

During the period of 12 months ended 31 December 2018, the Group recognized the costs of liquidation and impairment losses on its proprietary software and licenses, as well as the costs of development projects in progress in the amount of PLN 5,099 thousand. The liquidated assets have been described below, in the description of development projects.

for the year ended 31 December 2017 (audited)	Own software and licenses	Costs of development projects in progress	Software, patents and licenses purchased	Total
As at 1 January 2017, less accumulated amortization	**18,841**	**3,319**	**8,020**	**30,180**
Additions, of which:	3,849	3,502	2,948	**10,299**
Purchases	-	-	2,919	**2,919**
Capitalization of project development costs	-	3,502	-	**3,502**
Transfer of the costs of completed development projects	3,849	-	-	**3,849**
Changes in presentation methods	-	-	29	**29**
Reductions, of which:	(12,166)	(4,217)	(2,865)	**(19,248)**
Amortization charges for the reporting period (-)	(4,676)	-	(2,865)	**(7,541)**
Transfer of the costs of completed development projects (-)	-	(3,849)	-	**(3,849)**
Disposals (-)	-	-	-	**-**
Liquidation and impairment charges (-)	(7,490)	(368)	-	**(7,858)**
Foreign exchange differences on translation of foreign operations (+/-)	(2,377)	(393)	(515)	**(3,285)**
As at 31 December 2017, less accumulated amortization	**8,147**	**2,211**	**7,588**	**17,946**
As at 1 January 2017				
Gross value	41,001	3,319	27,434	**71,754**
Accumulated amortization (-)	(22,160)	-	(19,414)	**(41,574)**
Net book value as at 1 January 2017	**18,841**	**3,319**	**8,020**	**30,180**
As at 31 December 2017				
Gross value	33,987	2,211	27,881	**64,079**
Accumulated amortization (-)	(25,840)	-	(20,293)	**(46,133)**
Net book value as at 31 December 2017	**8,147**	**2,211**	**7,588**	**17,946**

As at 31 December 2017, intangible assets did not serve as collateral for any bank loans.

During the period of 12 months ended 31 December 2017, the Group recognized the costs of liquidation and impairment losses on its proprietary software and licenses, as well as the costs of development projects in progress in the amount of PLN 7,858 thousand.

All figures in thousands of PLN, unless stated otherwise

Development projects

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

In the year ended 31 December 2018, the total capitalized costs of development projects amounted to PLN 1,393 thousand, in comparison to PLN 3,502 thousand spent during the previous year ended 31 December 2017.

In 2018, capitalized costs of development projects were incurred in the following operating segments:

	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Banking Solutions	396	1,882
Payment Solutions	408	664
Systems Integration	589	956
	1,393	**3,502**

Within the Banking Solutions segment, capitalized expenditures were related to the development of Digital Edge modules (including Digital Edge Web and Digital Edge Mobile channels), which is a digital banking platform with a set of customer engagement capabilities and functionalities available over remote access channels just as at bank branches, as well as the Experience Frontline solution supporting bank's servicing operations on assisted channels.

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

Major products developed by the Systems Integration segment in 2018 included Fidelity (comprehensive solution that automates the full lifecycle of assets and spending processes) and LeaseFlex (fully-fledged lease and asset lifecycle management solution dedicated to leasing companies).

The value of completed development projects amounted to PLN 868 thousand in the period of 12 months ended 31 December 2018, as compared with PLN 3,849 thousand in 2017. In 2018, such expenditures were associated with the development of Fidelity software within the Systems Integration segment.

The total amount of research and development expenditures that were expensed in the period of 12 months ended 31 December 2018 equalled PLN 12,825 thousand.

In line with the requirements of IAS 36 'Impairment of Assets', the Group measured the recoverable amount of the costs of development projects in progress as at 31 December 2018 and 31 December 2017. Components of intangible assets that are not yet available for use shall be valued on an annual basis, regardless of whether there are indications of possible impairment.

In 2018, the Group decided to liquidate its capitalized costs of development projects (both completed and in progress) with a total amount of PLN 5,099 thousand. The liquidation affected the capitalized costs of development projects in Serbia and Turkey, in the Banking Solutions segment (PLN 841 thousand), the Systems Integration segment (PLN 3,170 thousand), as well as in the Payment Solutions segment (PLN 1,088 thousand). Such write-downs resulted from the Management's assessment of the amount of realizable revenues from individual, internally generated software modules.

In 2017, the Group decided to liquidate its capitalized costs of development projects (both completed and in progress) with a total amount of PLN 7,858 thousand. The liquidation affected the capitalized costs of development projects in Serbia and Turkey, in the Banking Solutions segment (PLN 5,856 thousand) as well as in the Systems Integration segment (PLN 2,002 thousand). Such write-downs resulted from the Management's assessment of the amount of realizable revenues from individual, internally generated software modules.

All figures in thousands of PLN, unless stated otherwise

10. Goodwill and business combinations

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

	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Goodwill at the beginning of the period	**475,360**	**505,634**
Banking Solutions	194,330	205,749
Payment Solutions	106,449	111,842
Systems Integration	174,581	188,043
Foreign exchange differences on translation of goodwill in foreign subsidiaries (+/-)	**5,729**	**(30,274)**
Banking Solutions	4,653	(11,419)
Payment Solutions	247	(5,393)
Systems Integration	829	(13,462)
Total book value at the end of period	**481,089**	**475,360**
Banking Solutions	198,983	194,330
Payment Solutions	106,696	106,449
Systems Integration	175,410	174,581

Impairment testing of goodwill

Goodwill is presented in the consolidated financial statements in a division corresponding to the Group's operating segments, i.e. broken down among our banking solutions, payment solutions, and systems integration.

Goodwill is subject to impairment testing on an annual basis and it was tested for impairment as at 31 December 2018.

The starting point for determining the value of cash generating units to which goodwill has been allocated was to estimate the recoverable amount of our investments in subsidiaries, in a breakdown to business units assigned to respective business units at the Group level (i.e. operating segments). Subsequently, the recoverable amounts of individual business units from various subsidiaries were aggregated by operating segments to which they were assigned, together creating the value of the cash-generating unit to which goodwill was allocated.

The recoverable amount of investments in subsidiaries as at 31 December 2018 was determined on the basis of their value in use, applying the forecasted free cash flow to firm (FCFF) based on the financial forecasts approved by our management personnel. The residual value was determined assuming no growth of the achieved margins after the forecast period.
The calculations were based on the following uniform assumptions:

- the so-called business units were analyzed which, when put together, comprise the budgets and forecasts of individual subsidiaries;
- the detailed forecast covered the period of 5 years at minimum. The first year data were adopted based on the budgets, while forecasted changes in cash flows were assumed for subsequent years. The residual value for later operations of each subsidiary was computed assuming no changes in cash flows;
- the assumed changes in cash flows depend upon the strategy of the entire Group and plans of individual companies, taking due account of conditions prevailing in particular geographical markets and sectors, and at the same time reflecting the present and potential order backlog. The potential order backlog presumes gaining new clients whilst keeping the present ones. The assumed changes are not materially different from average growth observed in relevant markets;
- the forecasts for foreign subsidiaries assumed growth in their functional currencies, after converting revenues forecasted in the local currency for each market in which the given segment operates to PLN at the exchange rate of 31 December 2018, the rate of revenue growth calculated as the compound annual growth rate (CAGR) in the period of detailed forecast equalled: 5.7% for banking solutions, 5.94% for payment solutions, and 4.17% for systems integration 4.17%;
- the discount rates applied were equivalent to the weighted average cost of capital determined for individual subsidiaries (a single discount rate was applied for different business segments within one subsidiary). Particular components of the adopted discount rates were determined taking into account the market values of risk-free interest rates, the beta coefficient leveraged to reflect the average market debt/equity ratio, as well as the expected market yield, and depending on the operating market of a given segment section ranged from 7.5 to 22.9%.

Based on the conducted tests, we did not recognize any impairment losses on goodwill in the year ended 31 December 2018 nor in the comparable period.

All figures in thousands of PLN, unless stated otherwise

Additionally, the Parent Company carried out a sensitivity analysis of the impairment tests conducted on goodwill arising from the acquisition of shares in its subsidiaries. The analysis of sensitivity shows how much the recoverable amount is going to change if the discount rate is increased by 1 pp with other assumptions remaining constant, or if the revenue growth rate is decreased by 1 pp with other assumptions remaining constant.

The results of such sensitivity analysis carried out as at 31 December 2018 are presented in the following table:

31 Dec. 2018	Discount rate Change by 1 pp	Sales revenue growth rate Change by 1 pp
Banking Solutions	-45,867	-29,705
Payment Solutions	-34,642	-35,913
Systems Integration	-33,411	-26,007

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

11. Inventories

Inventories	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Goods for resale	18,823	26,177
Maintenance inventories	11,320	10,129
Impairment loss on inventories (-)	(13,137)	(11,514)
	17,006	**24,792**

In the year ended 31 December 2018, the Group recognized impairment losses on inventories in the amount of PLN 3,484 thousand, while the amount of impairment losses reversed equalled PLN 1,873 thousand. In the year ended 31 December 2017, the Group recognized impairment losses on inventories in the amount of PLN 3,909 thousand, while the amount of impairment losses reversed equalled PLN 2,014 thousand.

Both as at 31 December 2018 and 31 December 2017, inventories did not serve as collateral for any bank loans.

12. Short-term receivables

Trade receivables	31 Dec. 2018 (audited)	31 Dec. 2017 (restated)
Trade receivables, of which:	124,518	104,883
From related parties	632	944
From other entities	126,985	107,332
Allowance for doubtful receivables (-)	(3,099)	(3,393)
Receivables from operating leases	7,602	5,829
	132,120	**110,712**

As at 31 December 2018, receivables in the amount of PLN 1,698 thousand served as collateral for bank loans and bank guarantee facilities. As at 31 December 2018, we had no liabilities under bank loans secured with such assets; however, bank guarantees extended under a bank guarantee facility secured with those receivables amounted to PLN 1,887 thousand.

As at 31 December 2017, receivables in the amount of PLN 3,467 thousand served as collateral for bank loans and bank guarantee facilities. As at 31 December 2017, we had no liabilities under bank loans secured with such assets; however, bank guarantees extended under a bank guarantee facility secured with those receivables amounted to PLN 2,833 thousand.

Receivables from the state and local	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Value added tax	179	126
Corporate income tax (CIT)	2,227	132
Other	1,176	644
	3,582	**902**

Other receivables	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Advance payments to suppliers	4,588	2,305
Security deposits receivable	389	307
Other receivables	1,376	726
	6,353	**3,338**

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

Other receivables disclosed as at 31 December 2018 include mainly receivables from employees, restricted cash, receivables from disposal of tangible assets, as well as other amounts receivable.

Other receivables disclosed as at 31 December 2017 include mainly receivables from employees, restricted cash, receivables from disposal of tangible assets, as well as other amounts receivable.

All figures in thousands of PLN, unless stated otherwise 38

13. Financial assets

	31 Dec. 2018 (audited)	Acquired / Granted / Deposited	Disposed / Repaid / Withdrawn	Valuation / Interest / Other	Foreign currency translation differences	31 Dec. 2017 (restated)
Investments in equity instruments carried at fair value through other comprehensive income						
Shares in companies listed on regulated markets	71	-	-	(2)	3	70
Shares in companies not listed on regulated markets	21	-	-	-	1	20
Total, of which:	**92**	**-**	**-**	**(2)**	**4**	**90**
- long-term	*66*					*65*
- short-term	*26*					*25*
Investments in debt securities and cash deposits carried at amortized cost:						
Loans granted to unrelated entities	91	-	-	-	3	88
Loans granted to employees	-	-	(8)	-	-	8
Deposits for 3 to 12 months	3,492	6,244	(2,795)	-	22	21
Bank deposits for over 12 months	522	522	(7)	-	-	7
Total, of which:	**4,105**	**6,766**	**(2,810)**	**-**	**25**	**124**
- long-term	*522*					*15*
- short-term	*3,583*					*109*
Financial assets carried at fair value through profit or loss						
Currency forward contracts	152	158	(243)	(589)	2	824
Investment fund units	-	-	(34)	-	1	33
Total, of which:	**152**	**158**	**(277)**	**(589)**	**3**	**857**
- long-term	-					*199*
- short-term	*152*					*658*

Both as at 31 December 2018 and 31 December 2017, financial assets carried at fair value through profit or loss included currency forward contracts that are held by ASEE S.A. and ASEE Romania.

The book values of financial assets held by the Group as at 31 December 2018 and 31 December 2017 did not differ from their fair values.

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

14. Cash and short-term deposits

	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Cash at bank and in hand	79,970	68,366
Short-term bank deposits	84,478	47,346
Cash being transferred	439	-
	164,887	**115,712**
Interest accrued on cash and cash equivalents as at the end of the reporting period	*(8)*	*(48)*
Overdraft facilities utilized for liquidity management	*(40)*	*(102)*
Cash and cash equivalents as disclosed in the cash flow statement	**164,839**	**115,562**

15. Prepayments and accrued income

Long-term	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Prepaid maintenance services and license fees	27	436
Other	607	305
	634	**741**

Short-term	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Prepaid maintenance services and license fees	11,585	6,262
Prepaid insurance	528	511
Prepaid rents	229	245
Prepaid consulting services	38	558
Other prepaid services	1,689	1,002
Costs of services performed for which revenues have not been recognized yet	92	267
Other	1,103	1,202
	15,264	**10,047**

Both as at 31 December 2018 and 31 December 2017, prepayments included primarily the costs of maintenance services and licensing fees amounting to PLN 11,612 thousand and PLN 6,698 thousand, respectively, that will be successively expensed in future periods.

All figures in thousands of PLN, unless stated otherwise

16. Share capital

Share capital Shares	Series	Par value per share	Number of shares	31 Dec. 2018 (audited) Value of shares	Number of shares	31 Dec. 2017 (audited) Value of shares
Ordinary registered shares	A*	0.1	5,000,000	500	5,000,000	500
Ordinary registered shares	B*	0.1	5,000,000	500	5,000,000	500
Ordinary registered shares	C*	0.1	2,567,000,900	256,700	2,567,000,900	256,700
Ordinary registered shares	D	10	25,770,009	257,700	25,770,009	257,700
Ordinary registered shares	E	10	956,447	9,565	956,447	9,565
Ordinary registered shares	F	10	1,475,509	14,755	1,475,509	14,755
Ordinary registered shares	G	10	2,708,378	27,084	2,708,378	27,084
Ordinary registered shares	H	10	1,062,030	10,620	1,062,030	10,620
Ordinary registered shares	I	10	1,770,609	17,706	1,770,609	17,706
Ordinary registered shares	J	10	1,714,209	17,142	1,714,209	17,142
Ordinary registered shares	K	10	4,590,470	45,905	4,590,470	45,905
Ordinary registered shares	L	10	2,100,000	21,000	2,100,000	21,000
Ordinary registered shares	M	10	4,810,880	48,109	4,810,880	48,109
Ordinary registered shares	N	10	1,078,909	10,789	1,078,909	10,789
Ordinary registered shares	P	10	1,524,269	15,242	1,524,269	15,242
Ordinary registered shares	R	10	592,941	5,929	592,941	5,929
Ordinary registered shares	S	10	837,472	8,375	837,472	8,375
Ordinary registered shares	T	10	902,119	9,021	902,119	9,021
			51,894,251	**518,942**	**51,894,251**	**518,942**

* Following a reverse split of series D shares

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

As at 20 February 2019 and 31 December 2018

Name of shareholder	Number of shares and votes held at GMS	Equity interest and percentage of total voting rights at GMS
Asseco International a.s.	26,494,676	51.06%
Aviva Pension Fund	9,455,000	18.22%
Aviva Investors Poland TFI S.A.	2,607,217	5.02%
Other shareholders	13,337,358	25.70%
	51,894,251	**100.00%**

As at 31 December 2017

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

Both as at 31 December 2018 and 31 December 2017, the share capital of ASEE S.A. amounted to PLN 518,942,510 and was divided into 51,894,251 ordinary shares with a par value of PLN 10.00 each, which entitled to 51,894,251 votes at the Company's General Meeting of Shareholders.

17. Share premium

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

18. Non-controlling interests

The table below presents changes in non-controlling interests:

	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
At the beginning of the period	**1,572**	**2,210**
Share in profits of subsidiaries	447	361
Acquisition of non-controlling interests	-	(686)
Foreign exchange differences on translation of foreign operations	24	(42)
Dividends paid out to non-controlling shareholders	(379)	(271)
At the end of the period	**1,664**	**1,572**

In 2017, acquisition of non-controlling interests resulted from the increase of shareholding in Chip Card company by ASEE Serbia (acquisition of an additional 7.49% stake of shares).

All figures in thousands of PLN, unless stated otherwise

19. Provisions

	Provisions for warranty repairs and product returns	Provisions for contractual penalties	Provision for losses on contracts	Costs related to ongoing court litigation	Post-employment benefits	Other provisions	Total
As at 1 January 2018	**497**	**953**	**692**	**580**	**1,660**	**70**	**4,452**
Created during the financial year	1,078	-	1,479	15	939	5	3,516
Utilized (-)	(193)	-	-	(35)	(228)	(25)	(481)
Reversed (-)	(714)	-	(1,581)	(126)	(79)	(7)	(2,507)
Changes in presentation methods (+/-)							
Discount change, actuarial gains/losses (+/-)							
Foreign exchange differences on translation of foreign operations (+/-)	14	24	19	(63)	(280)	1	(285)
As at 31 December 2018 (audited)	**682**	**977**	**609**	**371**	**2,012**	**44**	**4,695**
Short-term	556	977	609	169	397	5	**2,713**
Long-term	126	-	-	202	1,615	39	**1,982**
As at 31 December 2017 (audited)	**497**	**953**	**692**	**580**	**1,660**	**70**	**4,452**
Short-term	497	953	692	264	153	70	**2,629**
Long-term	-	-	-	316	1,507	-	**1,823**

Warranty repairs

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

Provision for contractual penalties

The provision for contractual penalties was created with regard to a contract executed in Serbia, under which software licenses were delivered while further contract stages (including implementation of the solution) were not performed. Discussions are being held in order to complete the contract by mutual agreement. The company has created provisions for potential customer claims related to the contract completion.

Post-employment benefits

The provision for post-employment benefits represents retirement benefits which are to be paid to the Group's employees when they go into retirement or leave the company, provided such entitlement was acquired in accordance with the country's applicable regulations.

20. Long-term and short-term financial liabilities

Long-term	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Finance lease liabilities	1,055	1,568
	1,055	**1,568**

Short-term	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Finance lease liabilities	820	976
Currency forward contracts	1	-
Other	8	22
	829	**998**

All figures in thousands of PLN, unless stated otherwise

21. Interest-bearing bank loans and borrowings

Effective interest rate %	Currency	Repayment date	Amounts drawn as at 31 Dec. 2018 (audited) long-term portion	31 Dec. 2018 (audited) short-term portion	31 Dec. 2017 (audited) long-term portion	31 Dec. 2017 (audited) short-term portion
BANK OVERDRAFT FACILITIES						
fixed interest rate	MKD	31-12-2018	-	6	-	10
fixed interest rate	MKD	31-12-2018	-	34	-	34
6M EURIBOR + margin	EUR	31-03-2018	-	-	-	58
OTHER BANK LOANS						
1M EURIBOR + margin	EUR	15-06-2019	-	9,982	-	9,556
-	TRY	01-01-2019	-	9	-	5
3M EURIBOR + margin	HRK/EUR	30-04-2019	-	1,204	1,177	3,531
3M EURIBOR + margin	HRK/EUR	31-12-2021	1,505	753	2,207	736
3M EURIBOR + margin	HRK/EUR	31-12-2022	2,839	946	3,699	925
6M EURIBOR + margin	EUR	30-04-2019	-	151	146	442
fixed interest rate	EUR	31-03-2021	1,148	916	2,002	888
1M EURIBOR + margin	EUR	18-12-2020	7,811	5,207	9,489	4,085
6M EURIBOR + margin	EUR	13-03-2020	112	443	538	430
3M EURIBOR + margin	EUR	21-09-2020	662	858	1,485	612
fixed interest rate	EUR	13-11-2019	-	1,716	1,538	1,398
3M EURIBOR + margin	EUR	15-06-2019	-	6,609	-	-
3M EURIBOR + margin	EUR	28-06-2021	2,574	1,716	-	-
3M EURIBOR + margin	EUR	28-08-2021	572	286	-	-
			17,223	**30,836**	**22,281**	**22,710**

The Group's total debt amounted to PLN 48,059 thousand as at 31 December 2018 (vs. PLN 44,991 thousand as at 31 December 2017), of which loans obtained in order to finance our projects of payment processes outsourcing amounted to PLN 48,010 thousand (vs. PLN 44,884 thousand in the comparable period).

Total proceeds from and repayments of bank loans disclosed in the statement of cash flows for the year 2018 amounted to PLN 16 million (proceeds) and PLN 13.9 million (repayments).

As at 31 December 2018, tangible assets with a book value of PLN 1,076 thousand served as collateral for bank loans. As at 31 December 2018, liabilities that were secured with such assets amounted to PLN 9,982 thousand. As at 31 December 2017, tangible assets with a book value of PLN 1,043 thousand served as collateral for bank loans. As at 31 December 2017, liabilities that were secured with such assets amounted to PLN 9,556 thousand.

Both in the reporting period and the comparable period, the margins realized by lenders to ASEE Group companies ranged from 1.3 to 3.5 percentage points on an annual basis.

22. Current liabilities

Trade payables	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Trade payables, of which:	72,009	53,361
To related parties	95	52
To other entities	71,914	53,309
Liabilities for uninvoiced deliveries, of which:	6,353	4,224
To related parties	-	-
To other entities	6,353	4,224
	78,362	**57,585**

The term for repayment of the Group's liabilities is 45 days on average.

Other current liabilities	31 Dec. 2018 (audited)	31 Dec. 2017 (restated)
Liabilities to employees relating to salaries	13,428	12,161
Liabilities from purchases of tangible assets and intangible assets	1,190	1,478
Other liabilities	1,480	494
	16,098	**14,133**

Current liabilities to the state and local budgets	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Value added tax	13,775	14,859
Corporate income tax (CIT)	3,684	2,696
Personal income tax (PIT)	2,033	1,860
Social security payable	3,170	3,301
Other	355	380
	23,017	**23,096**

All figures in thousands of PLN, unless stated otherwise

23. Accruals

Short-term accruals	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Accrual for unused holiday leaves	2,798	2,253
Accrual for employee bonuses	10,563	9,862
	13,361	**12,115**

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

24. Assets and liabilities from contracts with customers

Contract assets include receivables arising from valuation of IT contracts and uninvoiced deliveries. Contract liabilities include liabilities arising from valuation of IT contracts as well as deferred income. The table below presents the balances of receivables, assets and liabilities from contracts with customers as at 31 December 2018 and 31 December 2017, as well as their changes over the period of 12 months ended 31 December 2018:

	31 Dec. 2018 (audited)	31 Dec. 2017 (restated)
Trade receivables	**132,120**	**110,712**
Contract assets	**19,022**	**21,467**
Receivables arising from valuation of IT contracts	10,433	12,025
Uninvoiced receivables	8,589	9,442
Contract liabilities, of which:	**37,402**	**38,074**
Liabilities arising from valuation of IT contracts	5,900	3,413
Deferred income	31,502	34,661

Trade receivables have been described in explanatory note 12.

In the period of 12 months ended 31 December 2018, contract assets changed as follows:

Contract assets	Year ended 31 Dec. 2018 (audited)
Contract assets at the beginning of the period	**21,467**
Recognition of revenues from invoices issued	(29,838)
Fulfilment of new uninvoiced performance obligations; changes in estimated transaction prices or costs; modification of other assumptions	27,220
Foreign exchange differences	173
Contract assets at the end of the period	**19,022**

Contract liabilities include deferred income as well as liabilities arising from valuation of IT contracts.

The balance of deferred income relates mainly to advance payments received for services to be provided, such as support and maintenance services, as well as for hardware to be delivered.

Long-term deferred income	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Prepaid maintenance services	236	1,431
License fees	-	165
Prepaid implementation services	-	159
	236	**1,755**

Short-term deferred income	31 Dec. 2018 (audited)	31 Dec. 2017 (restated)
Maintenance services	20,843	10,699
Prepaid implementation services	1,779	1,508
License fees	670	198
Obligation to supply hardware	7,243	20,501
Other	731	-
	31,266	**32,906**

Changes in deferred income are presented below:

Deferred income	Year ended 31 Dec. 2018 (audited)
Deferred income from contracts with customers at the beginning of the period	**34,661**
Sales invoices issued and advance payments received	45,731
Fulfilment of previously invoiced performance obligations; changes in estimated transaction prices or costs; modification of other assumptions	(48,014)
Foreign exchange differences	(876)
Deferred income from contracts with customers at the end of the period	**31,502**

Changes in liabilities arising from valuation of IT contracts are presented below:

Liabilities arising from valuation of IT contracts	Year ended 31 Dec. 2018 (audited)
Liabilities arising from valuation of IT contracts at the beginning of the period	**3,413**
Recognition of revenues from invoices issued	12,932
Fulfilment of previously invoiced performance obligations; changes in estimated transaction prices or costs; modification of other assumptions	(10,514)
Foreign exchange differences	69
Liabilities arising from valuation of IT contracts at the end of the period	**5,900**

All figures in thousands of PLN, unless stated otherwise

25. Finance leases – the Group acting as a lessee

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

Leasing of cars and equipment	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Minimum lease payments		
in the period shorter than 1 year	885	1,054
in the period from 1 to 5 years	1,094	1,648
in the period longer than 5 years	-	-
Future minimum lease payments	**1,979**	**2,702**
Future interest expense	(104)	(158)
Present value of finance lease liabilities	**1,875**	**2,544**
in the period shorter than 1 year	820	976
in the period from 1 to 5 years	1,055	1,568
in the period longer than 5 years	-	-

26. Outsourcing contracts – the Group acting as a lessor

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

Future minimum lease payments	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
(i) within 1 year	62,672	54,133
(ii) within 1 to 5 years	49,525	64,254
(iii) within more than 5 years	4,903	7,048
	117,100	**125,435**

27. Contingent liabilities and receivables

Within its commercial activities ASEE Group uses bank guarantees, letters of credit, contract performance guarantees as well as tender deposits as forms of securing its business transactions with miscellaneous organizations, companies and administration bodies. As at 31 December 2018, the related contingent liabilities equalled PLN 24,638 thousand, while as at 31 December 2017 they amounted to PLN 15,550 thousand.

Assets serving as collateral for bank guarantee facilities:

Category of assets	Net value of assets		Amount of granted guarantee secured with assets	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Trade receivables	1,698	3,467	1,887	2,833
Total	**1,698**	**3,467**	**1,887**	**2,833**

The Group is party to a number of contracts for rental of:

a) office and warehouse space;
b) locations for ATMs;
c) transportation vehicles;
d) office equipment;
e) other assets.

As at 31 December 2018 and 31 December 2017, the above-mentioned contracts resulted in the following future payments:

Liabilities from rental of space	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
In the period up to 1 year	9,797	13,289
In the period from 1 to 5 years	23,259	10,642
	33,056	**23,931**

Liabilities under operating leases of property, plant and equipment	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
In the period up to 1 year	1,820	1,425
In the period from 1 to 5 years	3,384	2,600
	5,204	**4,025**

The said contracts meet the definition of a lease under IFRS 16. Presented below is the reconciliation of liabilities under our rental contracts with lease liabilities to be recognized as at 1 January 2019:

Lease liabilities	31 Dec. 2018 (audited)
Operating lease liabilities as at 31 December 2018 (IAS 17)	**38,260**
Finance lease liabilities as at 31 December 2018 (IAS 17)	**1,875**
Amount of discount calculated using the incremental borrowing rate (-)	(3,489)
Short-term leases (-)	(460)
Leases of low value assets (-)	(36)
Lease liabilities as at 1 January 2019 (IFRS 16)	**36,150**

28. Share-based payment plan

On 23 June 2017, Asseco Poland S.A. and managers of ASEE Group companies signed agreements for the acquisition of 2,221,356 shares in ASEE S.A., representing 4.28% of the company's share capital. Members of the Management Board of ASEE S.A. as well as parties related through Members of the Management Board of ASEE S.A. acquired 1,572,424 shares in total.

The above-mentioned agreements constitute an equity-settled share-based payment transaction as defined by IFRS 2.

All figures in thousands of PLN, unless stated otherwise 44

The purchase rights were vested on 23 June 2017. The acquisition price was set at PLN 10.89 per share. As at the acquisition date, the market price per share equalled PLN 12.60. According to the concluded agreements, the managers shall exercise all the rights attached to shares acquired (dividend rights, voting rights, etc.) since the shares acquisition date, this is as of 23 June 2017. The consideration for the shares shall be paid in eight annual instalments till 31 July 2024. The right to pay the acquisition price in instalments is granted to persons participating in this plan provided they continue to serve in a managerial position at the Group and do not violate any material conditions of the agreement (among others, make timely payments according to the schedule, establish a pledge on shares acquired, refrain from selling these shares during the lock-up period, etc.). The managers are not allowed to sell these shares over a lock-up period of 2 years in relation to 50% of shares and 3 years for the remaining 50% of shares. The managers shall be entitled to make an earlier payment for shares acquired at the agreed price of PLN 10.89 per share, except for shares being subject to the lock-up obligation. Therefore, over a period of 2 years from the date of concluding the agreement, payments for shares acquired must be made in accordance with the agreed schedule. Hence, after 2 years have passed and still before the lapse of 3 years, the managers can make an early payment for 50% of shares at maximum. Upon expiry of the 3-year period, early payment can be made for all shares acquired. An unpaid portion of the selling price shall be secured by establishing a pledge on shares purchased by each buyer.

The agreements also provide for put and call options, enabling the parties to resell or repurchase any unpaid shares.

The fair value of this share-based incentive plan has been estimated as the sum of the discount between the shares market price on the transaction date and their actual acquisition price, and the valuation of put options measured using the Black-Scholes Merton model. The total fair value of the plan as at the rights vesting date amounts to PLN 5,642 thousand. The incentive plan costs will be accounted for, along with the corresponding increase in equity, as costs of employee benefits and recognized in the financial results of ASEE Group for the years 2017-2020.

The fair value of equity instruments awarded under the incentive plan has been measured based on the following assumptions:

Market price of 1 share of ASEE on the acquisition date	PLN 12.60
Acquisition price of 1 share	PLN 10.89
Expected share price volatility	25.61%
Risk-free interest rate	2.25%
Dividend yield	3.81%
Employee turnover ratio	9.0%

The expected share price volatility of 25.61% has been computed based on historical quotes of our shares in the period of two years preceding the date of the shares sale transaction, taking into account their average closing prices.

The risk-free interest rate has been assumed in correspondence to the interest offered on three-year Treasury bills, equalling 2.25%.

The dividend yield has been determined on the basis of dividend amounting to PLN 0.48 per share that was paid out to the shareholders of ASEE S.A. from the company's net profit for the year 2016.

The employee turnover ratio has been estimated based on historical data for the years 2015-2017 and updated with current changes in the employment of persons participating in the incentive plan.

The options exercise period has been set at 2 years in relation to 50% of shares and 3 years for the remaining 50% of shares. The options exercise period has been correlated with the lock-up period applicable to the sale of shares, lasting 2 or 3 years.

The costs of share-based payment plan disclosed in the consolidated financial statements for the year ended 31 December 2018 amounted to PLN 2,493 thousand (vs. PLN 1,170 thousand in 2017), of which PLN 1,765 thousand were related to shares acquired by members of the Management Board. In correspondence, this transaction was recognized as a separate item of the Group's equity, in the same amount as disclosed in remuneration costs.

29. Cases in court

As at 31 December 2018, ASEE Romania has been party to legal proceedings brought by Romsys S.R.L. that demands ASEE Romania to pay compensation in the amount of EUR 1,226 thousand in order to compensate for their losses so far incurred due to allegedly unfair competition. On 28 February 2018, the first instance court dismissed the claim made by Romsys S.R.L. This judgment is not legally binding and the counterparty has the right to appeal against it. The Management of ASEE Romania, after seeking legal opinion, believes it is unlikely that the company will incur any significant losses in connection with this case. In line with the Management's standpoint, ASEE Romania created a provision for the costs of court proceedings only.

All figures in thousands of PLN, unless stated otherwise

ASEE Croatia is party to legal proceedings brought by eSanctuary SAGL that demands ASEE Croatia to pay compensation in the amount of EUR 306 thousand for commissions on contracts executed by ASEE Croatia in the Italian market. Until 2016, the parties were bound by the Partner and Reseller Agreement which was terminated by ASEE Croatia. In connection with the ongoing conciliatory talks, the court hearing in this case that was earlier scheduled for 11 February 2019, was postponed at the joint request of the parties. At the current stage of proceedings, the Management of ASEE Croatia believes it is unlikely that the company will incur any significant losses in connection with this case.

30. Information on related parties

The table below presents the structure of ASEE Group along with equity interests and voting rights at the general meetings of shareholders/partners of ASEE Group companies as at 31 December 2018 and 31 December 2017:

Full name of entity	Short name as used in this report	Country of registration	Equity interest / Voting rights	
			31 Dec. 2018	31 Dec. 2017
Asseco South Eastern Europe S.A.	**ASEE S.A.**	Poland		
Asseco SEE s.r.l. (Bucharest)	**ASEE Romania**	Romania	100.00%	100.00%
Asseco s.r.l. MOLDOVA	ASEE Moldova	Moldova	100.00%	100.00%
Asseco SEE d.o.o., Belgrade	**ASEE Serbia**	Serbia	100.00%	100.00%
E-Mon d.o.o., Podgorica	E-Mon Montenegro	Montenegro	75.00%	75.00%
Asseco SEE d.o.o. (Zagreb)	**ASEE Croatia**	Croatia	100.00%	100.00%
Asseco SEE Sh.p.k. (Pristina)	**ASEE Kosovo**	Kosovo	100.00%	100.00%
Asseco SEE Sh.p.k., Tirana	ASEE Albania	Albania	100.00%	100.00%
Asseco SEE Teknoloji A.Ş. (Istanbul)	**ASEE Turkey**	Turkey	100.00%	100.00%
Nestpay Odeme Hizmetleri A.S.	ASEE Nestpay	Turkey	100.00%	100.00%
Asseco SEE DOOEL, Skopje	**ASEE Macedonia**	Macedonia	100.00%	100.00%
Asseco SEE d.o.o. (Sarajevo)	**ASEE B&H**	Bosnia and Herzegovina	100.00%	100.00%
Asseco SEE o.o.d., Sofia	**ASEE Bulgaria**	Bulgaria	100.00%	100.00%
Payten d.o.o. (Ljubljana)	**Payten Slovenia**	Slovenia	100.00%	100.00%
Payten d.o.o., Podgorica	**Payten Montenegro**	Montenegro	100.00%	100.00%
Payten d.o.o. (Zagreb)	**Payten Croatia**	Croatia	100.00%	100.00%
Payten Payment Solutions s.r.l. (Bucharest)	**Payten Romania**	Romania	100.00%	n/a
Payten d.o.o. New Belgrade	**Payten Serbia**	Serbia	100.00%	n/a
Chip Card a.d., Belgrade	Chip Card Serbia	Serbia	92.50%	92.50%
Multicard d.o.o., Belgrade	Multicard Serbia	Serbia	63.70%	45.00%
Payten DOOEL, Skopje	**Payten Macedonia**	Macedonia	100.00%	n/a
Payten d.o.o. (Sarajevo)	**Payten B&H**	Bosnia and Herzegovina	100.00%	n/a

The parent company of Asseco South Eastern Europe S.A. is Asseco International a.s. (AI), seated in Bratislava.

Both as at 31 December 2018 and 31 December 2017, Asseco International a.s. held a 51.06% stake in the share capital of ASEE S.A.

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

Multicard Serbia is an associated company accounted for using the equity method. During the reporting period, as a result of conversion of Multicard Serbia's debt towards Payten Serbia to equity, the equity interest held by Payten Serbia in Multicard increased from 45% to 63.70%. Because the articles of association of Multicard stipulate that most resolutions of its general meeting must be adopted by unanimous decision, Payten Serbia has not obtained control over that company.

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

Both as at 31 December 2018 and 31 December 2017, voting rights held by the Group in ASEE Group companies were equivalent to the Group's equity interests in these entities.

Changes in ASEE Group composition

During the year ended 31 December 2018, the organizational structure of ASEE Group changed as described below. These changes were implemented as part of a broader process aiming to formally spin off our payment services into a standalone organizational unit.

All figures in thousands of PLN, unless stated otherwise

Separation of Payten d.o.o., New Belgrade (Payten Serbia)

On 3 January 2018, a new company called Payten Serbia was officially separated from ASEE Serbia. Such division resulted in the creation of two separate entities engaged in the payment business and other operations, respectively.

Changing the name of Asseco SEE d.o.o. Podgorica (ASEE Montenegro) to Payten d.o.o., Podgorica (Payten Montenegro)

On 10 January 2018, ASEE Montenegro was renamed as Payten Montenegro. Because our operations in Montenegro are focused primarily on payment services, they will all be incorporated into the new structure of Payten Montenegro.

Establishing of Payten DOOEL Skopje (Payten Macedonia)

On 8 February 2018, a new company called Payten DOOEL Skopje (Payten Macedonia) was registered in Macedonia. The existing operations of ASEE Macedonia in the area of payment services will be transferred into the new company.

Establishing of Payten d.o.o. Sarajevo (Payten B&H)

On 7 May 2018, a new company called Payten d.o.o. Sarajevo (Payten B&H) was registered in Bosnia and Herzegovina. The existing operations of ASEE B&H in the area of payment services will be transferred into the new company.

Increasing the shareholding in Multicard

On 9 May 2018, a resolution was passed in order to convert Multicard's debt towards Payten Serbia in the amount of RSD 24,713 thousand. As a result of such conversion the equity interest held by Payten Serbia in Multicard increased from 45% to 63.70%. Because the articles of association of Multicard stipulate that most resolutions of its general meeting must be adopted by unanimous decision, Payten Serbia has not obtained control over that company and Multicard is still accounted for using the equity method.

Separation of Payten Payment Solution s.r.l., Bucharest (Payten Romania)

On 16 May 2018, a new company called Payten Romania was officially separated from ASEE Romania. Such division resulted in the creation of two separate entities engaged in the payment business and other operations, respectively.

Changing the name of Asseco SEE d.o.o., (Ljubljana) to Payten d.o.o., (Ljubljana) (Payten Slovenia)

On 5 July 2018, the company of ASEE Slovenia was renamed as Payten Slovenia. Because our operations in Slovenia are focused primarily on payment services, they will all be incorporated into the new structure of Payten Slovenia.

During the period of 12 months ended 31 December 2018, there were no other changes in the organizational structure of either ASEE Group or the Issuer.

Related party transactions

The values of transactions conducted by ASEE Group with Asseco Poland S.A. (a shareholder with significant influence on the Group's operations), with other related parties of Asseco Poland Group, as well as with our associates and joint ventures during the years ended 31 December 2018 and 31 December 2017, as well as outstanding balances of receivables and liabilities arising from such transactions as at 31 December 2018 and 31 December 2017 are presented in the table below:

Related party	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Party having significant influence over the Group:				
2018	64	223	58	19
2017	76	269	54	-
Other related parties:				
2018	7,281	191	131	1
2017	557	20	30	-
Associates:				
2018	212	-	360	-
2017	404	-	875	-

In addition, Asseco International a.s., our parent company, received dividends from ASEE S.A. in the gross amount of PLN 13,777 thousand.

Apart from trade receivables, the above table also discloses receivables from deposits paid-in by us under space rental contracts, amounting to PLN 47 thousand as at 31 December 2018 and PLN 47 thousand as at 31 December 2017.

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

The values of transactions conducted by ASEE Group with or through the Key Management Personnel (members of Management Boards and Supervisory Boards) of the Group companies during the years ended 31 December 2018 and 31 December 2017, as well as outstanding balances of receivables and liabilities arising from such transactions as at 31 December 2018 and 31 December 2017 are presented in the table below:

All figures in thousands of PLN, unless stated otherwise

Related party	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Key Management Personnel (members of Management Boards and Supervisory Boards) of ASEE S.A. and the Group companies:				
2018	380	2,898	130	75
2017	255	3,057	32	52

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

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

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

During the year ended 31 December 2018, ASEE Serbia incurred space rental costs that were paid to its related parties MHM d.o.o., Belgrade[1] and MiniInvest d.o.o., Belgrade[2], amounting in total to PLN 1,907 thousand. The presented amount corresponds to the share of related parties (35%) in total costs incurred for the benefit of MHM.

During the same period, Payten Serbia incurred space rental costs that were paid to Miljan Mališ and related party Mini Invest d.o.o., Belgrade[2], amounting in total to PLN 233 thousand.

During the period of 12 months ended 31 December 2017, ASEE Serbia incurred space rental costs that were paid to its related parties MHM d.o.o., Belgrade[1] and MiniInvest d.o.o., Belgrade[2], amounting in total to PLN 2,246 thousand. The presented amount corresponds to the share of related parties in total costs incurred for the benefit of MHM.

During the period of 12 months ended 31 December 2018, ASEE Serbia recognized revenues in the amount of PLN 323 thousand from the company iPay SEE d.o.o., Belgrade[3], as compared with PLN 257 thousand in 2017. Such revenues were related to the sale of a software solution for authorization and processing of payment transactions. In addition, during the same period, ASEE Serbia incurred costs for purchases of implementation services and licenses from the companies Tradeticity Services d.o.o Beograd and Tradeticity d.o.o Zagreb[4], in the total amount of PLN 311 thousand. The above amounts represent total revenues and costs recognized by ASEE Serbia. Equity interests in these related parties are disclosed in the footnotes.

In addition, in the period of 12 months ended 31 December 2018, ASEE Serbia recognized PLN 57 thousand in revenue from the sale of a car to Miodrag Mirčetić.

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

On 23 June 2017, Asseco Poland S.A. and managers of ASEE Group companies signed agreements for the acquisition of shares in ASEE S.A., which has been described in detail in explanatory note 28 in this report. Members of the Management Board of ASEE S.A., acting directly or through their related parties, have acquired the following numbers of shares:

Management Board Members	Number of shares acquired
Piotr Jeleński	966,942
Miljan Mališ	300,000
Miodrag Mirčetić	275,482
Marcin Rulnicki	30,000
	1,572,424

In the consolidated financial statements for the year ended 31 December 2018, the costs of share-based payment plan related to shares acquired by members of the Management Board amounted to PLN 1,765 thousand.

[1] President of the Management Board of ASEE S.A. holds indirectly a 15% stake in MHM d.o.o. through his wholly-owned Kompania Petyhorska d.o.o. Whereas, 20% of shares in MHM d.o.o. are held by I4 Invention d.o.o. which is also a shareholder in ASEE S.A. 100% of shares in I4 Invention d.o.o. are owned by Miodrag Mirčetić, Member of the Management Board of Asseco SEE d.o.o., Belgrade as well as Member of the Management Board of ASEE S.A.

As at 31 December 2018, I4 Invention d.o.o. held 275,482 shares in ASEE S.A.

[2] Miljan Mališ, Member of the Management Board of ASEE S.A. is a shareholder in the company Mini Invest d.o.o. which in turn is a shareholder in ASEE S.A. As at 31 December 2018, Mini Invest d.o.o. held 300,000 shares in ASEE S.A.

[3] 65% of shares in the company iPay SEE d.o.o. are held by I4 Invention d.o.o., 100% of shares in the company I4 Invention d.o.o. are held by Miodrag Mirčetić, Member of the Management Board of Asseco SEE d o.o., Belgrade as well as Member of the Management Board of ASEE S.A.

[4] 36.25% of shares in the companies Tradeticity Services d.o.o. Beograd and Tradeticity d.o.o. Zagreb are held by I4 Invention d.o.o., 100% of shares in the company I4 Invention d.o.o. are held by Miodrag Mirčetić, Member of the Management Board of Asseco SEE d o.o., Belgrade as well as Member of the Management Board of ASEE S.A.

All figures in thousands of PLN, unless stated otherwise

Members of the Management Board and parties related through members of the Management Board and Supervisory Board of Asseco South Eastern Europe S.A. received dividends from ASEE S.A. in the total gross amount of PLN 818 thousand, as compared with PLN 755 thousand distributed in 2017. The above-stated amounts do not include dividends payable to Asseco International a.s. The dividend was paid out on 12 July 2018.

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

31. Employment

Number of employees in the Group as at	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Management Board of the Parent Company	4	4
Management Boards of the Group companies	41	33
Production departments	1,302	1,194
Sales departments	133	125
Administration departments	175	183
	1,655	**1,539**

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

Number of employees in the Group companies as at	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
ASEE S.A.	30	25
ASEE Romania Group	141	189
ASEE Serbia Group	420	526
ASEE Croatia	162	144
ASEE Kosovo Group	61	61
ASEE Turkey Group	186	179
ASEE Bulgaria	20	19
ASEE B&H	63	75
ASEE Macedonia	177	175
Payten Slovenia	30	37
Payten Montenegro	11	10
Payten Croatia	108	99
Payten B&H	34	-
Payten Macedonia	28	-
Payten Serbia Group	132	-
Payten Romania	52	-
	1,655	**1,539**

* In 2018, due to the process of official separation of our payment services into a standalone organizational unit, a number of employees of ASEE Serbia, ASEE Macedonia, ASEE B&H and ASEE Romania, being responsible for the Payment Solutions segment, have been transferred to Payten Serbia, Payten Macedonia, Payten B&H and Payten Romania, respectively.

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

The table below presents the amounts of remuneration paid to Members of the Company's Management Board and Supervisory Board for performing their duties during the years 2018 and 2017:

Fixed remuneration for the period of	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Management Board		
Piotr Jeleński	365	365
Miljan Mališ	175	174
Miodrag Mirčetić	214	218
Marcin Rulnicki	282	281
	1,036	**1,038**
Supervisory Board		
Jozef Klein	21	41
Adam Góral	30	23
Jacek Duch	62	42
Artur Kucharski	92	83
Adam Pawłowicz	61	12
Gabriela Żukowicz	n/a	31
	266	**232**

Variable remuneration for the period of	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Management Board		
Piotr Jeleński	2,012	2,041
Miljan Mališ	502	493
Miodrag Mirčetić	450	401
Marcin Rulnicki	455	475
	3,419	**3,410**
Supervisory Board		
Jozef Klein	-	-
Adam Góral	-	-
Jacek Duch	-	-
Artur Kucharski	-	-
Adam Pawłowicz	-	-
Gabriela Żukowicz	n/a	-
	-	**-**

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

Total remunerations paid or payable to members of the Management Boards and Supervisory Boards of ASEE Group subsidiaries in the year ended 31 December 2018 amounted to PLN 13,596 thousand (excluding the amounts stated in the tables above).

Total remunerations paid or payable to members of the Management Boards and Supervisory Boards of ASEE Group subsidiaries in the year ended 31 December 2017 amounted to PLN 11,471 thousand (excluding the amounts stated in the tables above).

All figures in thousands of PLN, unless stated otherwise

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

The table below discloses the amounts of remuneration paid or payable to the entity authorized to audit financial statements for the years ended 31 December 2018 and 31 December 2017:

Remuneration for the period of	Year ended 31 Dec. 2018[1] (audited)	Year ended 31 Dec. 2017[2] (audited)
Audit of the annual financial statements	160	133
Review of the semi-annual financial statements	56	80
	216	**213**

1) In the year ended 31 December 2018, to the entity authorized to audit financial statements was Deloitte Audyt Sp. z o.o. (limited partnership);
2) In the year ended 31 December 2017, to the entity authorized to audit financial statements was Ernst & Young Audyt Polska Sp. z o.o. (limited partnership).

34. Capital management

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

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

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

Apart from the above-mentioned change, during the years ended 31 December 2018 and 31 December 2017, the Group did not introduce any significant changes to its objectives, policies and processes adopted in the area of capital management.

Capital management	31 Dec. 2018 (audited)	31 Dec. 2017 (restated)
Interest-bearing bank loans and borrowings	48,059	44,991
Trade payables and other liabilities	155,472	132,131
Minus cash and cash equivalents (-)	(164,887)	(115,712)
Net debt	**38,644**	**61,410**
Equity	765,089	719,312
Equity and net debt	**803,733**	**780,722**
Leverage ratio	**4.81%**	**7.87%**

35. Objectives and principles of financial risk management

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

Foreign currency risk

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

Interest rate risk

All figures in thousands of PLN, unless stated otherwise

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

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

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

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

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

Credit risk

The Group has adopted a policy that allows for selling products and services to reliable clients only. Due to the continuing monitoring of amounts receivable as well as the Group's policy for writing-down past-due receivables, our credit sales risk cannot exceed the level covered by allowances for doubtful receivables.

Our accounting policy for the estimation of allowances for expected credit losses has been described in item IV.7 'Changes in the accounting policies applied' sub-item (ii) IFRS 9 'Financial Instruments'.

Presented below is the ageing analysis of trade receivables as at 31 December 2018 and 31 December 2017.

Ageing of trade receivables	31 Dec. 2018 (audited)		31 Dec. 2017 (restated)	
	amount	structure	amount	structure
Receivables not yet due	114,913	87.0%	92,998	84.0%
Receivables past-due up to 3 months	13,554	10.3%	14,105	12.7%
Receivables past-due over 3 months	3,652	2.7%	3,609	3.3%
	132,120	**100.0%**	**110,712**	**100.0%**

In 2018, the gross amount of receivables past-due over 3 months equalled PLN 6,266 thousand. We recognized an allowance in the amount of PLN 844 thousand for receivables past-due over 6 months, as well as an allowance in the amount of PLN 1,916 thousand for receivables past-due more than 1 year.

In 2017, the gross amount of receivables past-due over 3 months equalled PLN 6,901 thousand. We recognized an allowance in the amount of PLN 624 thousand for receivables past-due over 6 months, as well as an allowance in the amount of PLN 2,668 thousand for receivables past-due more than 1 year.

	Year ended 31 Dec. 2018 (audited)	Year ended 31 Dec. 2017 (audited)
Allowances recognized as at 1 January	**3,393**	**3,266**
Created	2,324	1,769
Reversed (-)	(1,780)	(930)
Utilized (-)	(845)	(505)
Foreign exchange differences on translation of foreign operations (+/-)	7	(207)
Allowances recognized as at 31 December	**3,099**	**3,393**

Allowances created in 2018 in the total amount of PLN 2,324 thousand are related to receivables written-down in accordance with the Group's accounting policy, and have been recognized primarily by ASEE Serbia, ASEE Turkey, and ASEE Romania.

Allowances reversed in 2018 amounted to PLN 1,780 thousand and were related primarily to projects implemented by ASEE Romania, ASEE Turkey, ASEE Kosovo, and ASEE Croatia. These allowances were reversed following the collection of related receivables from customers.

Allowances created in 2017 in the total amount of PLN 1,769 thousand are related to receivables written-down in accordance with the Group's accounting policy, and have been recognized primarily by ASEE Serbia, ASEE Macedonia, and ASEE Romania.

Allowances reversed in 2017 amounted to PLN 930 thousand and were related primarily to projects implemented by ASEE Macedonia, ASEE Serbia, and ASEE Romania. These allowances were reversed following the collection of related receivables from customers.

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

All figures in thousands of PLN, unless stated otherwise

Financial liquidity risk

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

The tables below present the ageing analysis of the Group's trade payables, as well as liabilities under finance leases and bank loans as at 31 December 2018 and 31 December 2017, by maturity based on contractual undiscounted payments:

Ageing of trade payables	31 Dec. 2018 (audited)		31 Dec. 2017 (audited)	
	amount	structure	amount	structure
Liabilities due already, of which:	10,882	15.1%	12,419	23.3%
-Liabilities past-due up to 3 months	*9,231*	*12.8%*	*11,192*	*21.0%*
-Liabilities past-due from 3 to 6 months	*477*	*0.7%*	*470*	*0.9%*
-Liabilities past-due over 6 months	*1,174*	*1.6%*	*757*	*1.4%*
Liabilities falling due within 3 months	60,912	84.6%	40,627	76.1%
Liabilities falling due within 3 to 12 months	82	0.1%	126	0.2%
Liabilities falling due after 1 year	133	0.2%	189	0.4%
	72,009	**100.0%**	**53,361**	**100.0%**

Ageing of lease liabilities	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Liabilities falling due within 1 year	885	1,054
Liabilities falling due within 1 to 5 years	1,094	1,648
Liabilities falling due after 5 years	-	-
	1,979	**2,702**

Ageing of liabilities under bank loans	31 Dec. 2018 (audited)	31 Dec. 2017 (audited)
Liabilities falling due within 1 year	20,853	22,710
Liabilities falling due within 1 to 5 years	27,206	22,281
Liabilities falling due after 5 years	-	-
	48,059	**44,991**

Analysis of sensitivity – foreign currency risk

As at 31 Dec. 2018 (audited)	Amount exposed to risk	Impact on financial results of the Group	
		(10%)	10%
EUR:			
Trade receivables	17,104	(899)	899
Loans granted	91	(9)	9
Financial instruments carried at fair value through profit or loss,	152	(15)	15
Cash and bank deposits	47,002	(3,613)	3,613
Bank loans	41,391	3,862	(3,862)
Trade payables	24,684	2,165	(2,165)
Balance		**1,491**	**(1,491)**
USD:			
Trade receivables	2,287	(229)	229
Financial instruments carried at fair value through profit or loss,	-	-	-
Cash and cash equivalents	10,921	(1,092)	1,092
Trade payables	1,949	195	(195)
Balance		**(1,126)**	**1,126**

The analysis of sensitivity of our trade receivables, cash at foreign currency bank accounts, loans granted and financial instruments, as well as liabilities under bank loans and trade payables, to fluctuations in the exchange rates of the US dollar against the functional currencies of the Group companies, indicates that the Group will incur a potential loss of PLN 1,126 thousand if the dollar depreciates by 10% versus our functional currencies. Whereas, if the euro depreciates by 10% versus the functional currencies of the Group companies, the Group will potentially gain PLN 1,491 thousand. Hence, if both the dollar and euro were 10% weaker against the functional currencies of the Group companies, the Group's financial results would improve by a total of PLN 365 thousand. Conversely, if the dollar and euro appreciated by 10% versus those functional currencies, the Group would incur an additional financial loss of PLN 365 thousand.

As at 31 Dec. 2017 (audited)	Amount exposed to risk	Impact on financial results of the Group	
		(10%)	10%
EUR:			
Trade receivables	26,559	(965)	965
Loans granted	96	(9)	9
Financial instruments carried at fair value through profit or loss,	450	(45)	45
Cash and bank deposits	21,287	(1,517)	1,517
Bank loans	44,942	4,044	(4,044)
Trade payables	35,249	2,663	(2,663)
Balance		**4,171**	**(4,171)**
USD:			
Trade receivables	4,056	(406)	406
Financial instruments carried at fair value through profit or loss,	356	(36)	36
Cash and cash equivalents	7,198	(720)	720
Trade payables	1,417	142	(142)
Balance		**(1,020)**	**1,020**

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

Methods adopted for conducting the sensitivity analysis

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

All figures in thousands of PLN, unless stated otherwise

Interest rate risk

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

The Group's total liabilities under all bank loans and borrowings aggregated at PLN 48,059 thousand as at 31 December 2018, of which the amount of PLN 44,230 thousand was exposed to the interest rate risk.

The Group monitors its exposure to changes in interest rates, but in the current market conditions we do not use any instruments to hedge against that risk.

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

36. Financial instruments

Fair value

	Carrying value 31 Dec. 2018	Level 1 i)	Level 2 ii)	Level 3 iii)	Carrying value 31 Dec. 2017	Level 1 i)	Level 2 ii)	Level 3 iii)
Financial assets carried at fair value through profit or loss	**152**	**-**	**152**	**-**	**857**	**-**	**824**	**33**
Investment fund units	-	-	-	-	33	-	-	33
Currency forward contracts	152	-	152	-	824	-	824	-
Investments in equity instruments carried at fair value through comprehensive income	**92**	**71**	**-**	**21**	**90**	**70**	**-**	**20**
Shares in companies listed on regulated markets	71	71	-	-	70	70	-	-
Shares in companies not listed on regulated markets	21	-	-	21	20	-	-	20
Investments in debt securities and cash deposits carried at amortized cost:	**4,105**	**-**	**4,105**	**-**	**124**	**-**	**124**	**-**
Granted to employees	-	-	-	-	8	-	8	-
Granted to other entities	91	-	91	-	88	-	88	-
Bank deposits (3 to 12 months long)	3,492	-	3,492	-	21	-	21	-
Bank deposits for over 12 months	522	-	522	-	7	-	7	-

i. fair value determined on the basis of quoted prices offered in active markets for identical assets;
ii. fair value determined using calculation models based on inputs that are observable, either directly or indirectly, in active markets;
iii. fair value determined using calculation models based on inputs that are not observable, neither directly or indirectly, in active markets.

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

Year ended 31 Dec. 2018 (restated)	Category according to IFRS 9	Interest income (expenses)	Gain (loss) on foreign exchange differences	Reversal/ (recognition) of impairment losses	Gain (loss) on revaluation	Total
Financial assets						
Cash deposits	MaAC	434	-	-	-	**434**
Financial assets carried at fair value	FVtPL	-	200	-	-	**200**
Loans and receivables	MaAC	55	2,888	(544)	-	**2,399**
Receivables from dividends and disposed shares	FVtPL	-	303	-	-	**303**
Cash and cash equivalents	FVtPL	1,286	3,414	-	-	**4,700**
Currency forward contracts	FVtPL	-	-	-	(589)	**(589)**
Financial liabilities						
Interest-bearing bank loans and borrowings	FLaAC	(1,144)	(209)	-	-	**(1,353)**
Other liabilities, of which:	FLaAC	(130)	(2,924)	-	-	**(3,054)**
Finance lease liabilities		*(99)*	-	-	-	***(99)***
Liabilities for unpaid shares		-	*(1,327)*	-	-	***(1,327)***
Trade payables	*FLaAC*	*(31)*	*(1,597)*	-	-	***(1,628)***
Total		**501**	**3,672**	**(544)**	**(589)**	**3,040**

Year ended 31 Dec. 2017 (restated)	Category according to IFRS 9	Interest income (expenses)	Gain (loss) on foreign exchange differences	Reversal/ (recognition) of impairment losses	Gain (loss) on revaluation	Total
Financial assets						
Cash deposits	MaAC	5	-	-	-	**5**
Financial assets carried at fair value	FVtPL	31	(184)	-	-	**(153)**
Loans and receivables	L&R	-	(984)	(839)	-	**(1,823)**
Receivables from dividends and disposed shares	FVtPL	-	(1,115)	-	-	**(1,115)**
Cash and cash equivalents	FVtPL	1,524	913	-	-	**2,437**
Financial liabilities						
Interest-bearing bank loans and borrowings	FLaAC	(927)	1,041	-	-	**114**
Other liabilities, of which:	FLaAC	(130)	(350)	-	1,800	**1,320**
Finance lease liabilities		*(46)*	-	-	-	***(46)***
Liabilities for unpaid shares		-	*(385)*	-	-	***(385)***
Currency forward contracts	FVtPL	-	-	-	*1,800*	***1,800***
Trade payables	*FLaAC*	*(84)*	*35*	-	-	***(49)***
Total		**503**	**(679)**	**(839)**	**1,800**	**785**

MaAC – measured at amortized cost;
FLaAC – financial liabilities at amortized cost
FVtPL – measured at fair value through profit or loss
L&R – loans and receivables

All figures in thousands of PLN, unless stated otherwise

37. Significant events after the reporting period

Division of ASEE Turkey

The division of ASEE Turkey was registered on 2 January 2019, in connection with the process of separating our payment services into a standalone organizational unit.

This division resulted in the creation of two separate entities, namely Payten Turkey (Payten Teknoloji A.Ş.) and ASEE Turkey (Asseco SEE Bilişim Teknolojileri A.Ş.), being engaged in the payment business and other operations, respectively.

Acquisition of shares in Necomplus S.L. based in Alicante

On 29 January 2019, the Company signed an agreement to acquire a 67.66% stake in the share capital of Necomplus S.L. based in Alicante, Spain ("Necomplus") for the total amount of PLN 32,888,506.50, being the equivalent of EUR 7,669,000 converted at the mid exchange rate published by the National Bank of Poland on 28 January 2019. The payment for these shares will be made in three instalments:
- 1st instalment amounting to PLN 23,020,668.00 payable within 3 days from the transaction date;
- 2nd instalment amounting to PLN 23,020,668.00 payable till the first anniversary of the transaction date;
- 3rd instalment amounting to PLN 4,931,775 payable till the second anniversary of the transaction date.

The acquisition of these shares is financed with own funds with the option of partial refinancing with a bank loan in the future. Concurrently, ASEE signed an agreement with the shareholders of Necomplus, based on the existing agreement concluded by the seller, among others providing for a put option reserved for minority shareholders.

Necomplus conducts business operations in Spain, Portugal, Peru, Colombia, Andorra, and in the Dominican Republic. The company is mainly engaged in installation and maintenance of POS terminals, as well as in BPO/call center services. Necomplus has been a member of the capital group of Asseco Poland since 2010. The said shares are sold by Asseco Western Europe S.A., a wholly-owned subsidiary of Asseco Poland S.A.

The goal of this acquisition is to further build the payment services business within the target organizational structure called Payten.

In the period from 31 December 2018 till the date of approval of these consolidated financial statements, this is until 20 February 2019, we have not observed any other major events, the disclosure of which might significantly affect the assessment of human resources, assets and financial position of ASEE Group.

38. Significant events related to prior years

Until the date of preparing these consolidated financial statements, this is until 20 February 2019, we have not observed any significant events related to prior years, which have not but should have been included in our accounting books.