

Solutions
for demanding
business.

ASSECO
SOUTH EASTERN EUROPE

**ANNUAL REPORT
OF ASSECO SOUTH EASTERN EUROPE S.A.
FOR THE YEAR ENDED
31 DECEMBER 2016**

Rzeszów, 17 February 2017



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

Rzeszów, 17 February 2017

Dear Shareholders,

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

Enhancing the portfolio of own products

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

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

Innovations, expansion into new markets

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

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

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

Directions of development

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

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

Piotr Jeleński
CEO, Group President

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Table of contents	Page
1. GENERAL INFORMATION ON THE ISSUER.....	6
2. BUSINESS PROFILE OF THE ISSUER	6
3. SHAREHOLDERS STRUCTURE.....	7
4. SHARES HELD BY MANAGEMENT AND SUPERVISORY PERSONNEL	7
5. AGREEMENTS WHICH MAY RESULT IN CHANGES OF THE EQUITY INTERESTS HELD	7
6. ISSUER'S DEVELOPMENT POLICY	7
7. KEY PRODUCTS, GOODS FOR RESALE, AND SERVICES	8
8. SELLING MARKETS	8
9. SIGNIFICANT AGREEMENTS CONCLUDED BY THE COMPANY	8
10. KEY ECONOMIC AND FINANCIAL FIGURES.....	8
Financial results for 2016	8
Structure of the statement of financial position of ASEE S.A.	8
Structure of the statement of cash flows	9
Analysis of financial ratios	9
11. SIGNIFICANT EVENTS WITH IMPACT ON BUSINESS OPERATIONS AND FINANCIAL PERFORMANCE	10
12. EXTERNAL AND INTERNAL FACTORS SIGNIFICANT FOR THE ISSUER'S DEVELOPMENT.....	10
13. SIGNIFICANT RISK FACTORS AND THREATS.....	11
14. ORGANIZATIONAL AND EQUITY RELATIONSHIPS OF THE ISSUER	14
15. RELATED PARTY TRANSACTIONS.....	15
16. BANK LOAN AGREEMENTS	15
17. LOANS GRANTED DURING THE FINANCIAL YEAR.....	15
18. SURETIES AND GUARANTIES	15
19. UTILIZATION OF PROCEEDS FROM ISSUANCE OF SHARES	15
20. EXPLANATION OF DIFFERENCES BETWEEN THE FINANCIAL RESULTS DISCLOSED IN THE ANNUAL REPORT AND PREVIOUS FINANCIAL FORECASTS FOR THE YEAR	16
21. ASSESSMENT OF THE FINANCIAL RESOURCES MANAGEMENT.....	16
22. FEASIBILITY OF INVESTMENT PLANS	16
23. CHANGES IN THE POLICIES OF COMPANY AND GROUP MANAGEMENT	16
24. AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND ITS MANAGEMENT AND SUPERVISORY PERSONNEL.....	16
25. REMUNERATION DUE TO THE ISSUER'S MANAGEMENT AND SUPERVISORY PERSONNEL	16
26. MONITORING OF EMPLOYEE STOCK OPTION PLANS.....	16
27. AGREEMENT WITH THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS	16
28. REMUNERATION PAID OR PAYABLE TO THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS	16
29. SIGNIFICANT OFF-BALANCE-SHEET ITEMS.....	16
30. INFORMATION ON PENDING LEGAL PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF ASEE S.A. OR ITS SUBSIDIARIES	16
31. INFORMATION ON THE ISSUER.....	17
MANAGEMENT BOARD DECLARATIONS.....	19

1. GENERAL INFORMATION ON THE ISSUER

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

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

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

2. BUSINESS PROFILE OF THE ISSUER

Asseco South Eastern Europe S.A. is engaged in holding operations which involve investments in new IT sector companies in South Eastern Europe and Turkey, as well as management of companies that have been already incorporated into Asseco South Eastern Europe Group in that region. Since 1 June 2012, this is from conducting the merger with its subsidiary ITD Poland, ASEE S.A. has been also engaged in the sales of services and software for voice automation solutions, payment systems, and mobile communication.

Asseco South Eastern Europe S.A. holds equity in the following subsidiaries:

Company	Short name	Seat	Business profile	Equity interest held	
				31 Dec. 2016	31 Dec. 2015
Asseco SEE d.o.o., Beograd	ASEE Serbia	Serbia	Development of applications and provision of comprehensive IT systems for financial institutions. Payment solutions. Integration services.	100%	100%
Asseco SEE d.o.o., (Zagreb)	ASEE Croatia	Croatia	Mobile and authentication solutions for financial institutions. Payment solutions.	100%	100%
Asseco SEE d.o.o., Podgorica	ASEE Montenegro	Montenegro	Payment solutions. Integration services and IT solutions for the financial, industrial, and public administration sectors.	100%	100%
Asseco SEE s.r.l., (Bucharest)	ASEE Romania	Romania	Integration services for the financial, industrial, and public administration sectors. Development of applications and provision of IT systems for financial institutions. Payment solutions.	100%	100%
Asseco SEE Sh.p.k., (Pristina)	ASEE Kosovo	Kosovo	Integration of IT systems as well as development and implementation of software for the banking sector and public administration. Payment solutions.	100%	100%
Asseco SEE Teknoloji A.Ş., (Istanbul)	ASEE Turkey	Turkey	Development of applications and provision of IT systems for the execution and settlement of on-line payments, detection and prevention of bank frauds, management of dispersed assets, lease management.	100%	100%
Asseco SEE d.o.o., (Ljubljana)	ASEE Slovenia	Slovenia	Payment solutions.	100%	100%
Asseco SEE o.o.d., Sofia	ASEE Bulgaria	Bulgaria	Payment solutions. Provision of IT systems for financial institutions.	100%	100%
Asseco SEE d.o.o., (Sarajevo)	ASEE B&H	Bosnia & Herzegovina	Provision of IT systems for financial institutions. Payment solutions.	100%	100%
Asseco SEE DOOEL, Skopje	ASEE Macedonia	Macedonia	Integration services for the financial, industrial, and public administration sectors. Development of applications and provision of IT systems for financial institutions. Payment solutions.	100%	100%

3. SHAREHOLDERS STRUCTURE

To the best knowledge of the Management Board of Asseco South Eastern Europe S.A., the shareholders who, either directly or through their subsidiaries, held at least 5% of total voting rights at the Company's General Meeting of Shareholders were as follows:

As at 17 February 2017:

Name of shareholder	Number of shares held and votes at GMS	Equity interest and voting rights at GMS
Asseco Poland S.A.	28,716,032	55.34%
Aviva Pension Fund	8,609,136	16.59%
Other shareholders	14,569,083	28.07%
	51,894,251	100.00%

As at 31 December 2016:

Name of shareholder	Number of shares held and votes at GMS	Equity interest and voting rights at GMS
Asseco Poland S.A.	28,716,032	55.34%
Aviva Pension Fund	8,609,136	16.59%
Other shareholders	14,569,083	28.07%
	51,894,251	100.00%

As at 31 December 2015

Name of shareholder	Number of shares held and votes at GMS	Equity interest and voting rights at GMS
Asseco Poland S.A.	26,494,676	51.06%
Aviva Pension Fund	6,571,636	12.66%
EBRD	4,810,880	9.27%
Liatris d.o.o.	3,364,898	6.48%
Other shareholders	10,652,161	20.53%
	51,894,251	100.00%

Both as at 31 December 2016 and 31 December 2015, the share capital of Asseco South Eastern Europe 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.

4. SHARES HELD BY MANAGEMENT AND SUPERVISORY PERSONNEL

Changes in the numbers of ASEE shares held by its management and supervisory staff.

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

Management	Number of shares held as at			
	17 Feb. 2017	31 Dec. 2016	21 Oct. 2016	31 Dec. 2015
Board Members				

Piotr Jeleński	550	550	550	550
Miljan Mališ ⁴⁾	-	-	-	-
Miodrag Mirčetić ⁵⁾	-	-	-	-
Marcin Rulnicki	-	-	-	-

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

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

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

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

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

6. ISSUER'S DEVELOPMENT POLICY

ASEE S.A. is primarily engaged in holding operations; hence, it is focused on managing the Group of companies as well as on extending its geographical coverage and product portfolio (holding activities). Since 1 June 2012, this is from the merger with its subsidiary ITD Poland, ASEE S.A. has been also engaged in the sales of services and software for voice automation solutions, payment systems, and mobile communication.

Because ASEE S.A. is primarily engaged in holding operations, directions of the Company's development

need to be examined taking into account the development and operations of the entire ASEE Group, as described in the Management Report on the Group's Operations for the year 2016, which has been published on 17 February 2017.

7. KEY PRODUCTS, GOODS FOR RESALE, AND SERVICES

At present, ASEE S.A. is engaged in holding activities involving management of its Group of companies, as well as in operating activities involving sales of services and software for voice automation solutions, payment systems, and mobile communication.

8. SELLING MARKETS

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

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

9. SIGNIFICANT AGREEMENTS CONCLUDED BY THE COMPANY

The Company's operations were significantly influenced by intra-group loan agreements. The above-mentioned transactions are described in item 17 of the Management Report on Operations of Asseco South Eastern Europe S.A. for the year 2016.

10. KEY ECONOMIC AND FINANCIAL FIGURES

Financial results for 2016

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	PLN'000	PLN'000
Dividend income	5,283	53,956
Revenues from sales of services	15,804	15,836
Cost of sales (-)	(9,859)	(11,025)
Selling costs (-)	(3,390)	(3,087)
General and administrative expenses (-)	(68)	(84)
Operating profit	7,828	56,196
Net profit for the reporting period	19	55,298

Dividend income recognized by ASEE S.A. in 2016 amounted to PLN 5,283 thousand, as compared with PLN 53,956 thousand in 2015. It is the policy of ASEE to distribute surplus cash from our operating companies to the holding company on a regular basis. Because at the end of 2015 our operating companies had a very good liquidity position, they made a number of dividend payments to the holding company, thus reducing their spare cash balances. As a result, in 2016 dividend income of ASEE was significantly lower than in the previous year as our operating companies decided to rebuild their cash positions and thus limited their dividend payments.

Revenues from sales of services amounted to PLN 15,804 thousand in 2016, remaining at a similar level as a year ago (PLN 15,836 thousand).

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

Structure of assets	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	PLN'000	PLN'000	%	%
Non-current assets	606,970	619,172	94%	93%
Property, plant and equipment, and intangible assets	5,999	5,439	1%	1%
Investments in subsidiaries	580,101	588,566	90%	88%
Long-term financial assets	14,478	17,572	2%	3%
Other	6,392	7,595	1%	1%
Current assets	38,308	47,237	6%	7%
Trade receivables and prepayments	2,469	3,311	0%	0%
Cash and cash deposits	11,208	32,929	2%	5%
Short-term financial assets	22,910	9,466	4%	1%
Other	1,721	1,531	0%	0%
TOTAL ASSETS	645,278	666,409	100%	100%

The structure of assets of ASEE S.A. is dominated by investments in subsidiaries. As at 31 December 2016, the value of our investments equalled PLN 580,101 thousand and was lower than in the previous year. The value of our investments changed due to the recognition of impairment write-downs on our investments in ASEE Bulgaria (PLN 4,265 thousand) and ASEE Kosovo (PLN 9,000 thousand), as well as reversal of an impairment write-down on our investment in ASEE Croatia (PLN 4,800 thousand). The share of investments in subsidiaries in our total assets increased from 88% last year to 90% as at 31 December 2016, which resulted from a decrease in cash and cash equivalents (by the amount of PLN 21,721 thousand) following the payment of a dividend to the Company's shareholders.

The value of short-term and long-term financial assets increased as a result of loans granted to our subsidiaries. The above-mentioned transactions are described in item 17 of the Management Report on Operations of Asseco South Eastern Europe S.A. for the year 2016.

Structure of equity and liabilities	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	PLN'000	PLN'000	%	%
Equity	625,393	647,170	97%	97%
Non-current liabilities	12,025	15,446	2%	2%
Current liabilities	7,860	3,793	1%	1%
TOTAL EQUITY AND LIABILITIES	645,278	666,409	100%	100%

The structure of equity and liabilities remained unchanged in relation to the previous year. The decline in the value of equity is attributable to the dividend payment to shareholders of ASEE S.A.

Non-current liabilities in the amount of PLN 12,025 thousand represented mainly our liabilities under a bank loan which is described in item 16 of the Management Report on Operations of Asseco South Eastern Europe S.A. for the year 2016.

Current liabilities increased due to the presentation of a short-term portion of the above-mentioned bank loan.

Structure of the statement of cash flows

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	PLN'000	PLN'000
Net cash provided by (used in) operating activities	9,475	53,659
Net cash provided by (used in) investing activities	(9,167)	(22,760)
Net cash provided by (used in) financing activities	(22,028)	(5,858)
Net change in cash and cash equivalents	(21,720)	25,041
Cash and cash equivalents at the end of period	11,208	32,929

In 2016, cash flows from operating activities comprised primarily dividends received from our subsidiaries in the amount of PLN 5,357 thousand, as well as proceeds from the sale of shares in Sigma Turkey amounting to PLN 1,653 thousand (presented under operating activities because ASEE S.A. operates as a holding company).

Cash flows from our investing activities were related primarily to proceeds and outlays under loans granted to ASEE Croatia, ASEE B&H, ASEE Turkey, ASEE Slovenia, ASEE Serbia, and ASEE Montenegro (PLN 9,033 thousand), as well as interest received on loans granted (PLN 943 thousand).

Whereas, cash flows from financing activities reflect the dividend payment to shareholders of ASEE S.A. (PLN 21,796 thousand).

Analysis of financial ratios

Profitability ratios

	Year ended 31 Dec. 2016	Year ended 31 Dec. 2015
	%	%
Return on equity (ROE)	0.00%	8.78%
Return on assets (ROA)	0.00%	8.61%

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

Both return on equity and return on assets metrics dropped in 2016 as compared to those reported for 2015, following a decrease in net profit for the reporting period which resulted from a lower amount of dividends received from our subsidiaries, as well as from recognition of impairment charges on the value of our investments.

Liquidity ratios

	31 Dec. 2016	31 Dec. 2015
Working capital	30,448	43,444
Current liquidity ratio	4.87	12.45
Quick liquidity ratio	4.76	12.29
Absolute liquidity ratio	1.43	8.68

The above ratios have been computed using the following formulas:
Working capital = current assets - current liabilities
Current liquidity ratio = current assets / current liabilities
Quick liquidity ratio = (current assets - inventories - prepayments) / current liabilities
Absolute liquidity ratio = (bonds and securities held to maturity + cash and short-term bank deposits) / current liabilities

Our working capital as well as liquidity ratios as at 31 December 2016 declined in comparison to those reported at the end of the previous year primarily due to a decrease in cash and short-term bank deposits following the distribution of a dividend to the Company's shareholders.

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

Because ASEE S.A. is primarily engaged in holding operations, financial performance of the Company and the Group is mostly influenced by the same events. A detailed description of events with a significant impact on the financial results achieved by ASEE Group in 2016 is provided in item 11 of the Management Report on Operations of ASEE Group for the year 2016, which has been published on 17 February 2017.

In addition to the above information, in the Management's opinion, the Company's operations and financial results have been or, in the near future, may be significantly influenced by:

- earnings of our subsidiaries which determine the amount of dividends received by ASEE S.A.;
- foreign exchange rates at which dividends are recognized in the accounting books of ASEE S.A.;
- development of the function-based management of ASEE Group, resulting in the expansion of our team and incurrence of higher costs.

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

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

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

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

- Economic situation in the region of South Eastern Europe and Turkey, especially in the context of observed business recovery that may affect the volume of orders and financial condition of ASEE Group's customers, as well as the future economic situation and an eventual return of local markets to a sustainable growth path;
- Geopolitical situation in South Eastern Europe and Turkey, where potential political tensions and instability of local governments may cause a deterioration of the investment climate and thus induce ASEE customers to delay or even abandon the implementation of IT projects; another consequence of potential political tensions might be

an interruption of IT investments in the public administration which is a client of ASEE Group;

- Condition of the IT market in the region of South Eastern Europe and Turkey; this part of Europe remains still underinvested in terms of information technology as compared with the West European countries;
- Implementation of informatization processes at the region's public administration bodies in order to upgrade the quality and functionality of their services to international standards and especially to the European Union requirements;
- Availability of the EU structural funds in Romania, Bulgaria, Slovenia and Croatia, as well as pre-accession funds in other countries;
- Consolidation and development of the banking sector in the region of South Eastern Europe and Turkey;
- Outlook for expansion of the Group's operations into new markets through cooperation with partners;
- Prospects for expansion of ASEE's product portfolio on the back of organic growth or in connection with potential future acquisitions;
- More and more severe competition both from local and international IT companies which is observed especially when it comes to the execution of large and prestigious contracts;
- Changes in the credit standing, financial liquidity and availability of financing for the Group's customers;
- Inflation and fluctuations in the currency exchange rates of countries in which the Group operates;
- Level of interest rates in the Eurozone because a significant portion of ASEE Group's debt is denominated in EUR;
- Opportunities and risks resulting from rapid technological changes and innovations in the IT market.

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

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

- Successful completion of potential company acquisitions in the future.

13. SIGNIFICANT RISK FACTORS AND THREATS

a. Major risk factors involved in the Group's business environment

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

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

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

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

Risk related to intensified competition in South Eastern Europe and Turkey

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

The risk associated with the condition of the regional banking sector

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

Risk of potential legal disputes concerning copyrights

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

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

Risk of changes in local tax regulations

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

Foreign currency exposure risk

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

Risk of interest rate hikes in the Eurozone

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

b. Major risk factors involved in the Group's business operations

Risk of fluctuations in revenues and expenditures

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

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

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

Risk associated with fixed-price contracts

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

Risk associated with gaining new IT contracts

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

Risk of becoming dependent on the key customers

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

Risk of becoming dependent on the key suppliers

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

Risk related to the profitability of integration projects

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

Risk related to insolvency or misconduct of our subcontractors

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

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

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

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

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

Risk of misfortunate acquisitions

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

Risk involved in integration of the Group

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

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

Risk of becoming dependent on the key management personnel

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

Risk of impairment of investments in subsidiaries

A significant portion of the Company's assets is represented by the value of investments in subsidiaries arising from the acquisition of companies that currently comprise ASEE Group. These assets are tested for impairment at each half-year end and year end. In the event such a test shows that the fair value of an asset is lower than its carrying value, we will have to recognize a fair value impairment write-down that shall weigh on the financial results of ASEE S.A. Impairment tests conducted as at 30 June 2016 indicated a necessity to recognize a write-down on our investment in ASEE Kosovo in the amount of PLN 4,000 thousand. Whereas, as at 31 December 2016, we created impairment write-downs on our investments in ASEE Kosovo in the amount of PLN 5,000 thousand, as well as in ASEE Bulgaria in the amount of PLN 4,265 thousand. On the other hand, as at 31 December 2016, we reversed an impairment write-down amounting to PLN 4,800 thousand that was recognized on our investment in ASEE Croatia in prior years. As a consequence of all the changes in

the value of investments in subsidiaries that took place during 2016, the Company's financial results dropped by PLN 8,465 thousand.

Risk of low liquidity and loss of value of our shares

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

Risk related to dividends

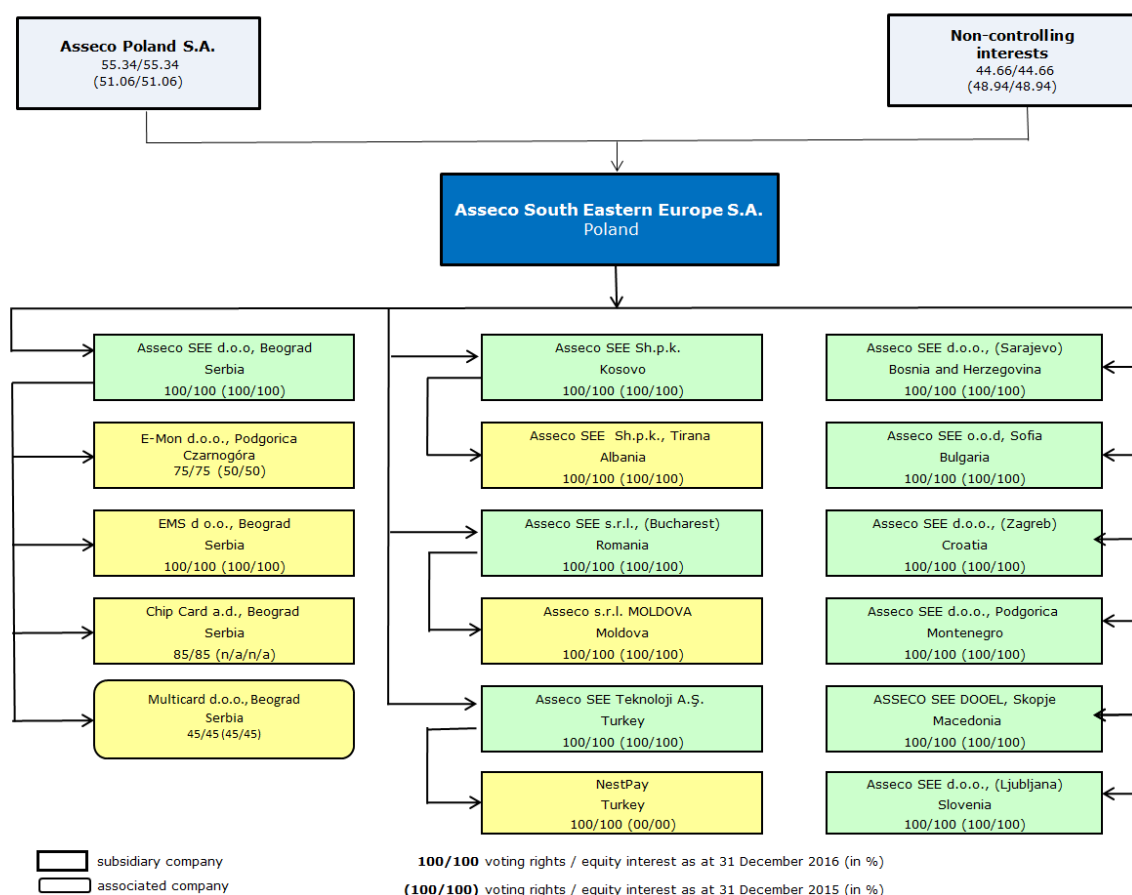
Our potential investors should be aware of the fact that distribution of any dividends by ASEE will depend on a number of factors, such as the Group's operating results, its financial standing as well as the current and anticipated demand for cash. It is the Management's intention to allocate a portion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

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

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

14. ORGANIZATIONAL AND EQUITY RELATIONSHIPS OF THE ISSUER

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



15. RELATED PARTY TRANSACTIONS

In the period of 12 months ended 31 December 2016, neither Asseco South Eastern Europe S.A. nor any of its subsidiaries conducted any transactions with their related parties other than on an arm's length basis.

Information on related party transactions carried out during the period of 12 months ended 31 December 2016 has been presented in explanatory note 23 to the annual financial statements of ASEE S.A. for the year 2016.

16. BANK LOAN AGREEMENTS

On 18 December 2014, ASEE S.A. signed a loan agreement with ING Bank Śląski S.A. The Bank provided ASEE S.A. with a line of credit up to the amount of EUR 9 million in order to enable financing of loans to be granted by the Company to its subsidiaries for the implementation of outsourcing contracts. The amount of EUR 2 million out of the above-mentioned limit might be alternatively used by ASEE for company acquisitions. Interest is payable on the amount of loan actually drawn and shall be based on the 1M EURIBOR rate plus margin. Repayment of the loan to the Bank was secured by providing sureties from our subsidiaries as well as by transferring the amounts receivable under loans granted to our subsidiaries, in accordance with the assignment agreement. The line of credit has been opened for the period of 2 years. The loan repayment deadline has been determined for 4 years after closing the line of credit. As at 31 December 2016, our liability under this bank loan amounted to PLN 15,657 thousand, as compared with PLN 15,052 thousand in 2015.

17. LOANS GRANTED DURING THE FINANCIAL YEAR

During the year 2016, the Company granted loans to its subsidiaries. As at 31 December 2016, the amounts outstanding under such loans were as follows:

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

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

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

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

Information on loans granted is presented in explanatory note 14 to the annual financial statements of Asseco South Eastern Europe S.A. for the year 2016.

18. SURETIES AND GUARANTIES

During the period of 12 months ended 31 December 2016, Asseco South Eastern Europe S.A. did not issue any new guarantees/sureties for its subsidiaries. The amounts of off-balance-sheet liabilities arising from guarantees/sureties granted in previous years are as follows:

Guarantees and sureties	PLN'000	in thousands	currency	Date of expiration
Bank loans	10,652			
- ASEE Croatia*	10,652	18,200	HRK	31.05.2017
Guarantee facilities	2,654			
- ASEE Kosovo	1,327	300	EUR	11.02.2019
- ASEE Kosovo	1,327	300	EUR	20.08.2017
Guarantees for due performance of contracts	1,278			
- ASEE Serbia	173	39	EUR	31.05.2017
- ASEE Slovenia	442	100	EUR	15.07.2017
- ASEE Slovenia	265	60	EUR	31.01.2017
- ASEE Slovenia	398	90	EUR	05.06.2020
Total guarantees and sureties	14,584			

* As at 31 December 2016, the amount of bank loan secured with the above-mentioned guarantee is PLN 883 thousand.

The granted guarantees amounted in total to PLN 14,584 thousand as at 31 December 2016, as compared with PLN 13,860 thousand as at 31 December 2015. All of the granted guarantees constitute off-balance-sheet items. As at 31 December 2016 and 31 December 2015, the Company had no other off-balance-sheet liabilities.

19. UTILIZATION OF PROCEEDS FROM ISSUANCE OF SHARES

In the period of 12 months ended 31 December 2016, Asseco South Eastern Europe S.A. did not issue any new shares.

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

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

21. ASSESSMENT OF THE FINANCIAL RESOURCES MANAGEMENT

During the year ended 31 December 2016, Asseco South Eastern Europe S.A. had no problems with timely settlement of its trade payables, payment of regulatory state charges, or with fulfilling its investment commitments.

22. FEASIBILITY OF INVESTMENT PLANS

As at 31 December 2016, Asseco South Eastern Europe S.A. held PLN 11.2 million of spare cash, which may be appropriated for potential company acquisitions in the region of South Eastern Europe and Turkey. Our future acquisitions will be financed partially or entirely from the Company's own funds, but it is also possible that the Company will seek external sources of financing. Furthermore, the Company may choose to finance its investment plans through the issuance of new shares.

23. CHANGES IN THE POLICIES OF COMPANY AND GROUP MANAGEMENT

In 2016, ASEE S.A. did not change any principles adopted for managing its organization.

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

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

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

Information on remuneration due to the Issuer's management and supervisory personnel has been disclosed in explanatory note 25 to the annual financial statements of Asseco South Eastern Europe S.A. for the year 2016.

26. MONITORING OF EMPLOYEE STOCK OPTION PLANS

The Company does not run any employee stock option plans.

27. AGREEMENT WITH THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS

The agreement with the entity authorized to audit financial statements, namely Ernst & Young Audyt Polska Sp. z o.o. (limited partnership), to carry out audits of the standalone and consolidated financial statements of ASEE S.A. drawn up for the period of 12 months ended 31 December 2016 was signed on 21 July 2016.

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

Information on remuneration due to the entity authorized to audit financial statements has been presented in explanatory note 26 to the annual financial statements of Asseco South Eastern Europe S.A. for the year 2016.

29. SIGNIFICANT OFF-BALANCE-SHEET ITEMS

As at 31 December 2016 and the date of publication of this report, the Company had no significant off-balance-sheet items apart from off-balance-sheet liabilities which have been described in explanatory note 22 to the financial statements of Asseco South Eastern Europe S.A. for the year 2016.

30. INFORMATION ON PENDING LEGAL PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF ASEE S.A. OR ITS SUBSIDIARIES

As at 31 December 2016, ASEE Romania is a party to legal proceedings brought by R0msys S.R.L., which demands ASEE Romania to pay a compensation in the amount of EUR 569 thousand (initial estimation) in order to compensate for the losses so far incurred due to allegedly unfair competition. The Management of ASEE Romania, after seeking legal opinion, believes it is unlikely that the company will incur any significant losses in connection with these proceedings. In line with the Management's standpoint, as at 31 December 2016, ASEE Romania created a provision for the costs of court proceedings only.

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

31. INFORMATION ON THE ISSUER

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

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

MANAGEMENT BOARD OF ASSECO SOUTH EASTERN EUROPE S.A.:

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

Rzeszów, 17 February 2017

MANAGEMENT BOARD DECLARATIONS

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

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

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

MANAGEMENT BOARD OF ASSECO SOUTH EASTERN EUROPE S.A.:

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

Rzeszów, 17 February 2017