ABC Data S.A. Capital Group

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2017

(PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 3-month period ended 31 March 2017

	Notes	*3 months ended 31.03.2017 (unaudited)*	*3 months ended 31.03.2016 (unaudited)*
Revenues	5	994 779	1 036 387
Cost of sales		(936 260)	(980 885)
Gross profit on sales		**58 519**	**55 502**
Other operating income		1 233	7 389
Selling expenses		(43 681)	(42 433)
Administrative expenses		(10 149)	(8 726)
Other operating expenses		(434)	(278)
Gross profit on operations		**5 488**	**11 454**
Financial income		103	5
Financial expenses		(2 457)	(1 897)
Net financial expenses		**(2 354)**	**(1 892)**
Profit before tax		**3 134**	**9 562**
Income tax	8	(1 688)	(2 264)
Net profit		**1 446**	**7 298**
Net profit attributed to:			
Parent shareholders		**1 568**	**7 298**
Non-controlling interest		**(122)**	-
Items that may be subsequently reclassified to profit or loss			
Exchange differences on foreign operations translation		(599)	22
Net chnage in fair value of cash flow hedges	14	6 238	4 062
Income tax on other comprehensive income		(1 185)	(772)
Total other comprehensive income		**4 454**	**3 312**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**5 900**	**10 610**
Comprehensive income for the period, attributed to:			
Parent shareholders		6 022	10 610
Non-controlling interest		(122)	-
Profit per share in PLN:			
– basic profit for the reporting period		0,01	0,06
– diluted profit for the reporting period		0,01	0,06

Ilona Weiss	Juliusz Niemotko	Andrzej Kuźniak	Maciej Kowalski	Krystyna Cybulska
President of the Management Board	*Vice-President of the Management Board*	*Vice-President of the Management Board*	*Vice-President of the Management Board*	*Chief Accountant*

Warsaw, 17 May 2017

(PLN '000)

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET
as at 31 March 2017

	Notes	*31.03.2017 (unaudited)*	*31.12.2016*	*31.03.2016 (unaudited)*
ASSETS				
Non-current assets				
Property, plant and equipment	9	9 878	10 229	4 443
Intangible assets	9	71 294	72 352	46 058
Long term investments		-	-	6 383
Deferred tax assets		21 794	22 960	19 788
		102 966	**105 541**	**76 672**
Current assets				
Inventories	10	385 338	421 995	505 364
Short-term financial assets		1 143	5	582
Income tax receivables		10 250	7 439	6 317
Trade and other receivables		357 929	626 964	356 626
Cash and cash equivalents	6	36 860	90 951	32 492
		791 520	**1 147 354**	**901 381**
TOTAL ASSETS		**894 486**	**1 252 895**	**978 053**

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(PLN '000)

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET
as at 31 March 2017

		31.03.2017 (unaudited)	*31.12.2016*	*31.03.2016 (unaudited)*
EQUITY AND LIABILITIES				
Share capital	13	125 267	125 267	125 267
Share premium		39 825	39 825	39 825
Treasury shares		(10 065)	(10 065)	(10 065)
Other reserve capital		3 992	(1 070)	3 307
Exchange differences on foreign operations translation		1 286	1 885	1 320
Retained profit		115 790	114 222	152 197
Equity attributable to parent shareholders		**276 095**	**270 064**	**311 851**
Non-controlling interest		**4 983**	**5 105**	**-**
Total equity		**281 078**	**275 169**	**311 851**
Long-term liabilities				
Provisions for employee benefits		651	651	446
Other financial liabilities		471	505	79
Provisions	11	484	535	792
		1 606	**1 691**	**1 317**
Short-term liabilities				
Current portion of interst bearing borrowings and debt instruments	12	130 030	148 949	127 812
Liabilities due to employee benefits		14 075	13 870	12 436
Other financial liabilities		4 082	4 570	167
Income tax liabilities		991	2 615	318
Trade and other liabilities		460 011	803 212	520 594
Provisions	11	2 613	2 819	3 558
		611 802	**976 035**	**664 885**
Total liabilities		**613 408**	**977 726**	**666 202**
TOTAL EQUITY AND LIABILITIES		**894 486**	**1 252 895**	**978 053**

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Warsaw, 17 May 2017

(PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
for the 3-month period ended 31 March 2017

	Notes	*3 months ended 31.03.2017 (unaudited)*	*3 months ended 31.03.2016 (unaudited)*
Cash flow from operating activities			
Gross profit from continuing operations		**3 134**	**9 562**
Adjusted by:			
Amortization / Depreciation		1 271	601
Cost of share-based payments		9	17
(Profit)/loss on investing activities		(32)	(16)
(Increase)/ decrease in receivables		269 035	181 025
(Increase)/ decrease in inventories		36 657	(83 329)
Increase/ (decrease) in liabilities, except for borrowings		(343 201)	(132 161)
Financial income		(103)	(5)
Financial expenses		2 457	1 897
Increase/(decrease) in liabilities to employees		205	248
Change in provisions	11	(257)	(235)
Income tax paid		(6 257)	(4 207)
Other		5 411	(2 091)
Net cash flow from operating activities		**(31 671)**	**(28 694)**
Cash flow from investing activities			
Sales of property, plant and equipment and intangible assets	9	35	22
Acquisition of property, plant and equipment and intangible assets	9	(591)	(129)
Interest received		103	5
Net cash flow from investing activities		**(453)**	**(102)**
Cash flow from financing activities			
Bank borrowing received		4 838	-
Repaid finance lease liabilities		(105)	(10)
Change of overdrafts	12	(23 757)	31 519
Interest paid		(2 943)	(2 273)
Net cash flow from financing activities		**(21 967)**	**29 236**
Net increase/(decrease) in cash and cash equivalents		(54 091)	440
Opening balance of cash		**90 951**	**32 052**
Closing balance of cash	6	**36 860**	**32 492**

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Warsaw, 17 May 2017

(PLN '000)

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 3-month period ended 31 March 2017

	Note	Share capital	Share premium	Treasury shares	Exchange differences on foreign operations translation	Other reserve capital	Retained profit	Net profit	Total	Non-controlling interest	share capital total
3 months 2017											
As at 1 January 2017		**125 267**	**39 825**	**(10 065)**	**1 885**	**(1 070)**	**114 222**	**-**	**270 064**	**5 105**	**275 169**
Net profit for the period		-	-	-	-	-	-	1 568	**1 568**	(122)	**1 446**
Other net comprehensive income for the period		-	-	-	(599)	5 053	-	-	**4 454**	-	**4 454**
Comprehensive income for the period		-	-	-	(599)	5 053	-	1 568	**6 022**	(122)	**5 900**
Share-based payments		-	-	-	-	9	-	-	**9**	-	**9**
Dividend paid		-	-	-	-	-	-	-	-	-	-
											-
As at 31 March 2017		**125 267**	**39 825**	**(10 065)**	**1 286**	**3 992**	**114 222**	**1 568**	**276 095**	**4 983**	**281 078**
12 months 2016											
As at 1 January 2016		**125 267**	**39 825**	**(10 065)**	**1 298**	**-**	**144 899**	**-**	**301 224**	**-**	**301 224**
Net profit for the period		-	-	-	-	-	-	17 135	**17 135**	79	**17 214**
Other net comprehensive income for the period		-	-	-	587	(1 131)	-	-	**(544)**	-	**(544)**
Comprehensive income for the period		-	-	-	587	(1 131)	-	17 135	**16 591**	79	**16 670**
									-		-
Acquisition of a subsidiary		-	-	-	-	-	-	-	-	**5 026**	**5 026**
Share-based payments		-	-	-	-	61	-	-	**61**	-	**61**
Dividend paid		-	-	-	-	-	(47 812)	-	**(47 812)**	-	**(47 812)**
											-
As at 31 December 2016		**125 267**	**39 825**	**(10 065)**	**1 885**	**(1 070)**	**97 087**	**17 135**	**270 064**	**5 105**	**275 169**

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Warsaw, 17 May 2017

NOTES

1. General information

The ABC Data S.A. Capital Group (the "Group") comprises ABC Data S.A. (the "Parent", the "Company") and its subsidiaries. The condensed interim financial statements of the Group cover the period of three months ended 31 March 2017. The statement of comprehensive income with notes thereto and the statement of cash flows cover the three months ended 31 March 2017 and comparative data for the three months ended 31 March 2016. Comparative data presented in the balance sheet include a balance as at 31 December 2016 and 31 March 2016. Comparative data presented in the statement of changes in equity cover the entire 2016.

The Parent was incorporated by a notarized deed of 25 July 2007 under the name of ABC Data Holding S.A. It has been operating under the name of ABC Data S.A. since 4 January 2010.

The Company is entered in the Register of Entrepreneurs of the National Court Register kept by the District Court, 13th Business Division of the National Court Register, under number KRS 0000287132. The Company was assigned the following statistical number REGON: 141054682.

The existence of the Parent and the Group companies is perpetual.

The Group's core business includes:

- wholesale of computers, peripherals and software;
- wholesale of electronic and telecommunication equipment;
- manufacture of computers and peripherals;
- software-related activities;
- data processing, hosting and similar activities;
- repair and maintenance of computers and peripherals;
- other IT and computer services;
- IT equipment administration;
- other non-school forms of education.

MCI Management S.A. is the top level parent of the ABC Data S.A. Capital Group and it controls the Group through its subsidiary: MCI Venture Projects Spółka z ograniczoną odpowiedzialnością VI Spółka komandytowo – akcyjna.

On 17 May 2017, these condensed interim consolidated financial statements of the Group for the three months ended 31 March 2016 were approved for publication by the Management Board.

The interim profit/loss may not fully reflect the realizable profit/loss for the financial year.

2. Basis for preparation of the condensed interim financial statements

These condensed interim consolidated financial statements have been prepared in line with International Financial Reporting Standards ("IFRS"), in particular International Accounting Standard 34 and the relevant IFRS as endorsed by the European Union. As at the date of approval of these financial statements for publication, considering the IFRS implementation process taking place in the EU and the activities carried out by the Company, as regards the accounting principles applied by the Company, the IFRS which came into force do not differ from those endorsed by the EU.
EU IFRS consist of standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed interim consolidated financial statements have been presented in Polish zlotys (PLN) and all figures are in PLN thousand, unless stated otherwise.

These condensed interim consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements, there were no circumstances that would indicate a risk to the Group companies' ability to continue as a going concern.

The condensed interim consolidated financial statements do not include all information and disclosures as required for annual consolidated financial statements and they should be read together with the Group's consolidated financial statements for the year ended 31 December 2016, which were approved for publication on 21 March 2017.

3. Summary of significant accounting policies

The accounting principles (policy) adopted for the preparation of these financial statements are consistent with those used for the preparation of the financial statements of the Group for the year ended 31 December 2016, except for the following amendments to standards and new interpretations endorsed by the European Union and applicable to annual periods beginning on 1 January 2017:

Effects of new and amended Standards and Interpretations

The following amendments to the existing standards have been approved for use by International Reporting Standards Board after 1 January 2017:

- Amendments to IAS 7 Statement of Cash Flows, Disclosure Initiative.
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

Until the publication date of these financial statements, the above amendments have not been endorsed by the European Union. Their application would not have impacted the Group's accounting policy or these consolidated financial statements.

4. Seasonality of operations

Sales of computers and electronic appliances are subject to seasonal changes. Higher revenue and operating profit is usually generated in the second half of the year. The sales level is the highest is in November and December. This cycle directly translates into trade receivable amounts and the use of bank loans and credit facilities.

(PLN ‘000)

5. Operating segments

The Group carries out homogeneous trade activities. The Group’s operating segments include the Parent and its subsidiaries carrying out distribution activities in the Czech Republic, Slovakia, Lithuania, Germany, Romania and Hungary. These segments meet the consolidation criteria as determined in IFRS 8.12, i.e. have similar economic characteristics, and are similar with respect to the nature of offered goods, the type or class of customer and the methods used to distribute their products and services.

The scope of activities of S4E, which was acquired in 2016, includes distribution of computer hardware and software as well as provision of services. According to the Management Board, the characteristics of the business model and the operations carried out by S4E do not make it a separate operating segment (as compared to the existing operations).

Therefore, only one operating segment has been identified by the Group.

Information about geographical regions

Sales revenue by customer's country of residence:

	3 months ended 31.03.2017 (unaudited)	*3 months ended 31.03.2016 (unaudited)*
Poland	691 245	618 328
Sales markets	215 778	274 946
Other EU Member States	75 286	103 002
Other countries	12 470	40 111
	994 779	1 036 387

6. Cash and cash equivalents

For purposes of the condensed interim consolidated statement of cash flows, cash and cash equivalents include:

	31.03.2017 (unaudited)	*31.03.2016 (unaudited)*
Cash at bank and in hand	35 482	30 530
Short term deposit	-	-
Other cash	1 378	1 962
	36 860	**32 492**

7. Dividends paid and proposed

On 21 March 2017 the Management Board of ABC Data S.A. passed a resolution to recommend the General Meeting not to pay dividend to the shareholders from 2016 profit.

The dividend from ordinary shares for 2015 was paid on 11 July 2016 and amounted to PLN 47,812 thousand. The dividend per share for 2015 was PLN 0.39.

(PLN '000)

8. Income tax

Key tax charge components in profit or loss:

	3 months ended 31.03.2017 (unaudited)	*3 months ended 31.03.2016 (unaudited)*
Current income tax	(1 769)	(650)
Deferred income tax	81	(1 614)
Income tax recognized in net profit for the current period	**(1 688)**	**(2 264)**

9. Property, plant and equipment and intangible assets

9.1. Purchases and sales of property, plant and equipment

During the three months ended 31 March 2017, the Group acquired property, plant and equipment of PLN 432 thousand (during the three months ended 31 March 2016: PLN 102 thousand).

During the three months ended 31 March 2017, the Group sold property, plant and equipment of PLN 3 thousand (during the three months ended 31 March 2016: PLN 5 thousand).

9.2. Acquisition and sale of intangible assets

During the three months ended 31 March 2017, the Group acquired intangible assets of PLN 159 thousand (during the three months ended 31 March 2016: PLN 27 thousand).

During the nine-month periods ended 31 March 2017 and 31 March 2016, the Company did not sell any intangible assets.

9.3. Finance leases

During the three months ended 31 March 2017, the Group concluded a finance leases. The lease object is a motor car with a value of PLN 93 thousand. During the three months ended 31 March 2016, the Group did not conclude any finance leases.

10. Inventories

As at 31 March 2017, an impairment loss on inventories reducing their value to the net realizable value was PLN 13,141 thousand (PLN 13,866 thousand as at 31 December 2015 and PLN 13,908 thousand as at 31 March 2016). Changes in the impairment loss are recognized in "Costs of goods sold".

(PLN '000)

11. Provisions

	Guarantee costs	Onerous contracts	Other provisions	Total
Amount as at 1 January 2017	2 832	522	0	3 354
Recognized	-	-	-	-
Derecognized	(233)	-	-	(233)
Exchange differences on translation	(24)	-	-	(24)
Amount as at 30 March 2017	2 575	522	-	3 097
Long-term portion	484	-	-	484
Short-term portion	1 952	522	139	2 613

	Guarantee costs	Onerous contracts	Other provisions	Total
Amount as at 1 January 2016	4 063	380	142	4 585
Recognized	-	-	(145)	(145)
Derecognized	(96)	-	-	(96)
Exchange differences on translation	3	-	3	6
Amount as at 30 March 2016	3 970	380	0	4 350
Long-term portion	792	-	-	792
Short-term portion	3 178	380	-	3 558

Warranty costs

The Group recognizes a provision for costs of complaints related to warranties and guarantees given with regard to goods sold. The provision is estimated based on the sales volume, length of warranty periods, historical data regarding faulty goods and the related losses and current operating costs of the service department. According to the Company, a provision of PLN 1,952 thousand shall be used within 12 months by 31 March 2018, while the remaining portion will be utilized after this date.

Onerous contracts

Additionally, the Group recognizes a provision related to goods purchase orders pending as at the end of the reporting period, which will be fulfilled at prices higher than the net realizable value. The provision is estimated on the basis of a detailed analysis of goods sales price trends after the end of the reporting period. Both recognition and derecognition of the said provision affect other operating expenses. It is expected that the total balance will be used in 2017.

12. Interest-bearing bank loans and credit facilities

Information on loans and changes in their balances (by bank):

in thousand PLN	Currency	Interest	Maturity date	31.03.2017	31.12.2016	31.03.2016
Overdraft facility - Bank Polska Kasa Opieki S.A.	PLN	Wibor 1M+margin	15.12.2017	7	4 433	9 349
Overdraft facility - Bank Polska Kasa Opieki S.A.	EUR	Euribor 1M+margin	15.12.2017	10 013	414	14 848
Overdraft facility - Bank Polska Kasa Opieki S.A.	USD	Libor 1M+margin	15.12.2017	2 030	638	599
Overdraft facility - Bank Millennium S.A.	PLN	Wibor 1M+margin	28.04.2018	1 022	12 553	8 359
Overdraft facility - Bank Millennium S.A.	EUR	Euribor 1M+margin	28.04.2018	6 244	1 899	17 535
Overdraft facility - Bank Millennium S.A.	USD	Libor 1M+margin	28.04.2018	4	1 318	205
Credit facility- cash pool account -Bank ING Bank Śląski S.A.	PLN	Wibor 1M+margin	09.10.2025	3 462	-	2 357
Overdraft facility - Bank ING Bank Śląski S.A.	EUR	Euribor 1M+margin	09.10.2025	8 289	12 912	17 772
Overdraft facility - Bank ING Bank Śląski S.A.	USD	Libor 1M+margin	09.10.2025	3 274	9 764	-
Overdraft facility - Bank ING Bank Śląski S.A.	CZK	Pribor 1M+margin	09.10.2025	6 044	-	5 228
Overdraft facility - Bank ING Bank Śląski S.A.	RON	Robor 1M+margin	09.10.2025	1	-	-
Overdraft facility - Bank Societe Generale	PLN	Wibor 1M+margin	23.09.2019	163	42 252	3 365
Overdraft facility - Bank Societe Generale	EUR	Euribor 1M+margin	23.09.2019	36 046	455	26 972
Overdraft facility - Bank Societe Generale	USD	Libor 1M+margin	23.09.2019	21	9 309	40
Overdraft facility - Bank Societe Generale	HUF	Bubor1M+margin	23.09.2019	-	3 322	-
Overdraft facility -BGŻ BNP Paribas	PLN	Wibor 1M+margin	01.12.2025	3 801	6 583	5 338
Overdraft facility -BGŻ BNP Paribas	EUR	Euribor 1M+margin	01.12.2025	29 382	14 426	15 806
Overdraft facility -BGŻ BNP Paribas	USD	Libor 1M+margin	01.12.2025	-	1 682	39
Overdraft facility- Bank Handlowy w Warszawie S.A.	PLN	Wibor 1M+margin	26.07.2019	1 194	16 027	-
Credit facility - Bank Handlowy w Warszawie S.A.	PLN	Wibor 3M+margin	31.07.2017	10 800	10 962	-
Credit facility - Bank Handlowy w Warszawie S.A.	PLN	Wibor 1M+margin	28.04.2017	5 000	-	-
Overdraft facility -Alior Bank	PLN	Wibor 1M+margin	23.11.2017	3 233	-	-
Razem				**130 030**	**148 949**	**127 812**

Bank loans are collateralized with the Group's declaration of voluntary submission to enforcement and authorization for banks to issue an enforced collection order and apply with the court for the acceleration clause.

Interest liabilities are usually paid in monthly periods during the entire financial year.

13. Equity

Share capital

As at 31 March 2017, the shareholding structure was as follows:

	Number of shares	Number of votes at GSM	% of votes held
MCI Venture Projects sp. z o.o. VI S.K.A.	76 060 378	76 060 378	60,72%
OFE PZU "Złota Jesień"	11 624 678	11 624 678	9,28%
Pozostali Akcjonariusze	37 581 843	37 581 843	30,00%
Total	125 266 899	125 266 899	100,00%

14. Hedge accounting

The Group hedges the currency risk related to sales indexed to EUR and USD exchange rates and denominated in these currencies with foreign currency monetary items, i.e. trade liabilities reduced by trade receivables and cash, and increased/reduced by the notional value of FX forwards and FX swaps regarding currency sales/purchases. The Group designates certain foreign currency monetary items as hedging instruments under the cash flow hedge model and recognizes them in line with the hedge accounting principles.

The following tables present the key parameters of foreign currency monetary items designated as hedges, including periods when cash flows will occur arising from the cash flow hedges and when they will have an effect on the profit/loss, as well as their fair value in PLN thousand as at 31 March 2017.

Hedging instruments – EUR

Instrument type	Nominal amount		Fair value*		Expected maturity of hedged position	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016	31.03.2017	31.03.2016
Trade liabilities	(74 961)	(189 740)	(74 961)	(189 740)	April/May 2017	April/May 2016
Trade receivables	83 437	74 335	83 437	74 335	April/May 2017	April/May 2016
Cash	(90 945)	(90 435)	(90 945)	(90 435)	April/May 2017	April/May 2016
FX Forward EUR	(42 684)	-	26	-	April/May 2017	April/May 2016
Total monetary items	(125 153)	(205 840)	(82 443)	(205 840)		

(PLN '000)

Hedging instruments - USD

Instrument type	Nominal amount		Fair value*		Expected maturity of hedged position	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016	31.03.2017	31.03.2016
Trade liabilities	(62 456)	(70 410)	(62 456)	(70 410)	April/May 2017	April/May 2016
Trade receivables	7 695	10 952	7 695	10 952	April/May 2017	April/May 2016
Cash	(4 793)	4 493	(4 793)	4 493	April/May 2017	April/May 2016
FX Forward EUR	-	7 518	-	(11)	April/May 2017	April/May 2016
Total monetary items	(59 554)	(47 447)	(59 554)	(54 976)		

* *For items other than FX forward derivative transactions, the carrying amount has been presented. According to the Company, the carrying amount of these items does not differ considerably from their fair value.*

Changes in the fair value of cash flow hedges recognized in equity are presented below.

	3 months ended 31.03.2017	*3 months ended 31.03.2016*
Opening balance	(1 467)	(71)
Effective portion of profit/loss on the hedging instrument	12 201	3 348
Amounts charged to profit or loss, including:	5 962	(714)
- Adjustment of sales revenue	5 962	(714)
- Adjustment arising from hedge ineffectiveness	-	-
Closing balance	4 772	3 991

15. Capital management

The key objective of the Management Board is to maintain a capital structure that would enable the Group's growth, guarantee return on investment for the shareholders, and ensure that the lenders' opinion on the Group is positive.

The capital structure is monitored on the basis of the net debt to EBITDA ratio.

Net debt includes liabilities arising from loans and debt instruments as well as lease liabilities, less cash and cash equivalents. EBITDA is defined as the net profit/loss determined in line with IFRS-EU, increased by depreciation and amortization, impairment losses on property, plant and equipment and on intangible assets, net financial expenses and income tax.

As at 31 March 2017 and 31 March 2016 the ratio was as follows:

	31.03.2017 (unaudited)	*31.03.2016 (unaudited)*
Net debt		
EBITDA	93 990	95 320
Net debt ratio	35 122	62 714
	2.7	**1.5**

**/EBITDA for the 12 months ended 31 March 2017 and 31 March 2016*

Additionally, pursuant to the Code of Commercial Companies, the Company is obliged to create supplementary capital by appropriating at least 8% of profit for each financial year, until its balance corresponds to at least one-third of the share capital value.

16. Contingent liabilities

16.1. Contingent liabilities relating to reprographic fees

Pursuant to the Act on Copyright and the Neighboring Rights of 4 February 1994, the Parent, as an importer of copiers, scanners and similar devices enabling the copying of published works, as well as blank data carriers enabling the recording of works for personal use, pays charges to organizations managing copyrights and the related rights collectively. Following an inspection carried out by an auditor appointed by these organizations, they have claimed significant additional amounts from the Company. According to the Company, the auditor's calculations include a number of errors, and the resulting claims are groundless. At present, a dispute with one of the organizations is pending. Due to doubts regarding the interpretation of legal regulations and differences in court decisions, the Company has recognized a provision for the amount which, in its opinion, fully covers the risk related to a possibility of an unfavorable ruling.

In the first quarter of 2016, a collective copyright management organization filed claims against the Company for the payment of PLN 19,206 thousand in relation to amounts due allegedly for the Company's sale of devices and blank data carriers. According to the Company and a third-party legal adviser, the calculation methodology used in the suit contains numerous errors and the related claims are baseless.

16.2. Tax returns

Corporate income tax for the 2010 fiscal year

In 2011, inspection proceedings were instituted by the Director of the Tax Inspection Office in Warsaw against the Company with respect to corporate income tax for 2010. The proceedings were discontinued by a decision of 5 June 2014, which determined the Company's corporate income tax liability for 2010. Despite the Company's appeal, the aforesaid decision was upheld by the Director of the Tax Chamber in Warsaw. The Company filed an appeal against the decision of the Director of the Tax Chamber in Warsaw in whole with the Regional Administrative Court in Warsaw.

In its judgment of 19 April 2016, the Regional Administrative Court in Warsaw repealed the decision appealed against. The judgment is not final. The Company agrees with the resolution of the first-instance court, whereby the decision was repealed. However, it questions the statement of reasons in several respects. Therefore, on 12 July 2016, it filed a last resort appeal with the Supreme Administrative Court. The decision is pending.

Value added tax for September 2012 and for the second quarter of 2014

In October 2014, the Head of the Second Mazovian Tax Office in Warsaw instituted tax proceedings against the Company with respect to value added tax for September 2012, as a continuation of an inspection which began in December 2013. On 14 December 2016, the proceedings were discontinued as baseless.

In September 2014, inspection proceedings were instituted against the Company on the authorization of the Director of the Tax Inspection Office in Warsaw to examine reliability of the tax bases declared by the Company as well as correctness of calculation of value added tax paid for the second quarter of 2014. The aforesaid proceedings had not been closed by the date of these financial statements.

Several years ago, the Company implemented strict quality control and vendor management procedures aimed to minimize the risk of irregularities in its tax reports. As the procedures are followed with due care, the Management Board is of the opinion that payments of regulatory liabilities are made as appropriate. Therefore, the probability of an unfavorable result of the aforementioned proceedings is considered to be low and it is not necessary to estimate any related provision.

(PLN '000)

17. Related-party transactions

The following table presents total amounts of transactions concluded with related parties during the three months ended 31 March 2017 and 31 March 2016, respectively, as well as balances of liabilities and receivables as at 31 March 2017 and 31 March 2016.

Related party		*Sales to related parties*	*Purchases from related parties*	*Receivables from related parties*	*Liabilities to related parties*
MCI Management S.A. Group companies					
MCI Management S.A.	*2017*	4	-	-	-
Morele Net Sp. z o.o.	*2017*	24 049	1 255	11 126	817
MCI Management S.A.	*2016*	-	-	-	-
Morele Net Sp. z o.o.	*2016*	16 797	1 697	15 039	353

Remuneration paid to the Management and Supervisory Board members

	3 months ended 31.03.2017 (unaudited)	*3 months ended 31.03.2016 (unaudited)*
Management Board of the Parent Company		
Short-term employee benefits	524	480
Supervisory Board of the Parent Company		
Short-term employee benefits	75	92
	599	**572**
Management Boards of subsidiaries		
Short-term employee benefits	1 227	972
Total	**1 826**	**1 544**

18. Events after the end of the reporting period

No events that would have a material effect on these financial statements but have not been included herein occurred after the end of the reporting period.

Ilona Weiss	Juliusz Niemotko	Andrzej Kuźniak	Maciej Kowalski	Krystyna Cybulska
President of the Management Board	*Vice-President of the Management Board*	*Vice-President of the Management Board*	*Vice-President of the Management Board*	*Chief Accountant*

Warsaw, 17 May 2017