Capital Group
Private Equity Managers S.A.

Consolidated Financial Statements
for the reporting period ended on 31 December 2017

Translation from the Polish original

For the Shareholders of Private Equity Managers S.A

In line with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and terms and conditions of approving of information required by law of a non-member state as equivalent (Journal of Laws of 2014, item 133 as amended), the Company's Management Board is obligated to provide the preparation of the consolidated Financial Statements in line with applicable accounting principles giving a fair and a true view of the Private Equity Managers Group's assets and financial standing for the reporting period from 1 January to 31 December 2017.

The Consolidated Financial Statements have been approved of for publication and signed by the Company's Management Board

Name	Position	Signature
Tomasz Czechowicz	President of the Management Board	
Ewa Ogryczak	Vice-President of the Management Board	
Krzysztof Konopiński	Member of the Management Board	
Paweł Kapica	Member of the Management Board	

Accounting records kept by:
Mazars Polska Sp. z o.o.
00-549 Warszawa, Piękna 18 st.

Warsaw, 27 march 2018

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	For the period: from 01.01.2017 to 31.12.2017 PLN'000	Restated For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2017 to 31.12.2017 EUR'000	Restated For the period: from 01.01.2016 to 31.12.2016 EUR'000
Revenues from fund management	47 652	44 103	11 226	10 079
Profit on operating activities	18 195	17 700	4 287	4 045
Profit before taxation	16 803	13 218	3 959	3 021
Net profit	5 339	14 024	1 258	3 205
Net cash from operating activities	9 537	26 053	2 247	5 954
Net cash from investment activities	(65)	540	(15)	123
Net cash from financial activities	(8 468)	(33 430)	(1 995)	(7 640)
Net increase/(decrease) of cash and cash equivalents	1 004	(6 837)	237	(1 562)

	Balance as at 31.12.2017 PLN'000	Restated Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2017 EUR'000	Restated Balance as at 31.12.2016 EUR'000
Total assets	108 389	109 144	25 987	24 671
Non-current liabilities	35 902	35 205	8 608	7 958
Current liabilities	30 541	28 028	7 322	6 335
Equity	41 946	45 911	10 057	10 378
Share capital	3 424	3 424	821	774
No of shares (in items)	3 423 769	3 423 769	3 423 769	3 423 769
Weighted average no of shares (in items)	3 423 769	3 394 197	3 423 769	3 394 197
Profit per one weighted average ordinary share (in PLN / EUR)	1,56	4,13	0,37	0,94
Book value per one share (in PLN / EUR)	12,25	13,41	2,94	3,03

The figures presented above are complementary to the Financial Statements prepared in line with IFRS EU and have been converted to EURO according to the following simplified principles:

- individual items of assets and liabilities as at the balance sheet date - according to the average rate determined by the National Bank of Poland applicable as at the last balance sheet date; respectively as at 31 December 2017 – 4,1709, as at 31 December 2016 – 4,4240;
- individual items of the statement of profit or loss and other comprehensive income and of the statement of cash flows for the period from 1 January to 31 December of a given year – according to the average rate calculated as the arithmetical average of exchange rates determined by the National Bank of Poland as at the last day of each month in a given period; respectively from 1 January to 31 December 2017 – 4,2447 and from 1 January to 31 December 2016 – 4,3757.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the reporting period ended on 31 December 2017

	NOTES	For the period: from 01.01.2017 to 31.12.2017 PLN'000	Restated* For the period: from 01.01.2016 to 31.12.2016 PLN'000
Continuing operations			
Revenues from fund management	1	47 652	44 103
Costs of basic activities	2	(9 916)	(10 285)
Gross profit on base business		**37 736**	**33 818**
Operating expenses	2	(19 483)	(16 192)
Other operating income	3	157	205
Other operating expenses	3	(215)	(131)
Profit on operating activities		**18 195**	**17 700**
Finance income	4	1 899	58
Finance expenses	4	(3 291)	(4 540)
Profit before taxation		**16 803**	**13 218**
Income tax**	5	(11 464)	806
Net profit		**5 339**	**14 024**
Attributable to:			
- owners of parent company		5 339	14 024
- non-controlling shares		-	-
		5 339	**14 024**
Other net comprehensive income			
Other comprehensive income		-	-
		5 339	**14 024**
Earnings per share			
Basic	6	1,56	4,13
Diluted	6	1,56	4,53

*For details please refer to **Change in comparative data** on page 9.
In position **Income tax deferred tax asset related to transactions from past periods was written-off in the amount of PLN 8,7 million. For details please refer to **Note 5 Income tax**.

Consolidated statement of profit or loss and of other comprehensive income shall be analysed together with selected disclosures and notes to the consolidated Financial Statements on pages 7 do 44.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	NOTY	Balance as at 31.12.2017 PLN'000	Restated* Balance as at 31.12.2016 PLN'000	Restated* Balance as at 01.01.2016 PLN'000
ASSETS				
Non-current assets				
Tangible fixed assets		787	885	101
Intangible assets		27	15	17
Goodwill	7	83 969	83 969	83 969
Deferred income tax assets	5	5 073	11 001	10 194
Trade and other receivables	8	7	187	390
		89 863	**96 057**	**94 671**
Current assets				
Trade and other receivables	8	15 368	10 933	22 153
Cash and cash equivalents	9	3 158	2 154	9 010
		18 526	**13 087**	**31 163**
Assets held for liquidation		**-**	**-**	**562**
Total assets		**108 389**	**109 144**	**126 396**
EQUITY AND LIABILITIES				
Equity				
Share capital	10	3 424	3 424	3 335
Reserve capital	10	381	40 413	35 391
Other reserve capital	10	10 747	6 727	4 074
Retained earnings		22 913	(17 881)	(17 735)
Net profit		5 339	14 024	48 927
Own shares		(62)	-	-
Other comprehensive income		(796)	(796)	(796)
		41 946	**45 911**	**73 196**
Non-current liabilities				
Liabilities on bonds	12	-	20 652	19 228
Loans	16	24 000	-	-
Provisions	14	11 902	14 553	24 911
		35 902	**35 205**	**44 139**
Current liabilities				
Trade and other payables	13	9 720	10 958	5 161
Liabilities on bonds	12	-	2 314	2 847
Loans	16	5 682	13	-
Bills of exchange	15	13 738	14 133	-
Provisions	14	1 401	610	1 053
		30 541	**28 028**	**9 061**
Total equity and liabilities		**108 389**	**109 144**	**126 396**

*For details please refer to **Change in comparative data** on page 9.

Consolidated statement of financial position shall be analysed together with selected disclosures and notes to the consolidated Financial Statements on pages 7 do 44.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period from 1 January to 31 December 2017

PLN'000	Share capital	Reserve capital**			Other reserve capital	Retained earnings	Net profit	Own shares	Other comprehensive income	Equity attributable to owners of parent company	Total equity
		Issue of shares above their nominal value	Issue of shares as part of conversion of convertible bonds	Distribution of profits	Management options programme						
As at 01.01.2016***	**3 335**	**23 360**	**3 611**	**8 420**	**4 074**	**(17 735)**	**49 643**	-	**(796)**	**73 912**	**73 912**
Change in comparative data*	-	-	-	-	-	-	(716)	-	-	(716)	(716)
As at 01.01.2016, restated*	**3 335**	**23 360**	**3 611**	**8 420**	**4 074**	**(17 735)**	**48 927**	**-**	**(796)**	**73 196**	**73 196**
Transfer of profit/loss*	-	-	-	-	-	48 927	(48 927)	-	-	-	-
Dividend payment	-	-	-	-	-	(49 073)	-	-	-	(49 073)	(49 073)
Settlement of option programmes	-	-	-	-	2 742	-	-	-	-	2 742	2 742
Acquisition of shares related to settlement of option program - agio	89	5 022	-	-	(89)	-	-	-	-	5 022	5 022
Profit or loss for the period, restated*	-	-	-	-	-	-	14 024		-	14 024	14 024
As at 31.12.2016, restated*	**3 424**	**28 382**	**3 611**	**8 420**	**6 727**	**(17 881)**	**14 024**	**-**	**(796)**	**45 911**	**45 911**
As at 01.01.2017, restated*	**3 424**	**28 382**	**3 611**	**8 420**	**6 727**	**(17 881)**	**14 024**	**-**	**(796)**	**45 911**	**45 911**
Transfer of profit/loss	-	-	-	887	-	13 137	(14 024)	-	-	-	-
Dividend payment	-	-	-	-	-	(10 032)	-	-	-	(10 032)	(10 032)
Coverage of loss with reserve capital	-	(28 382)	-	(9 307)	-	37 689	-	-	-	-	-
Redemption of convertible bonds (C-series)	-	-	(3 230)	-	-	-	-	-	-	(3 230)	(3 230)
Option programmes	-	-	-	-	4 113	-	-	-	-	4 113	4 113
Settlement of option programme for Supervisory Board 2012*	-	-	-	-	(93)	-	-	-	-	(93)	(93)
Purchase of own shares	-	-	-	-	-	-	-	(62)	-	(62)	(62)
Profit/loss for the period	-	-	-	-	-	-	5 339	-	-	5 339	5 339
As at 31.12.2017	**3 424**	**-**	**381**	**-**	**10 747**	**22 913**	**5 339**	**(62)**	**(796)**	**41 946**	**41 946**

*For details please refer to **Change in comparative data** on page 9.
**Reserve capital in standalone financial statements differs from reserve capital of the parent company due to different net profits at standalone and consolidated level.
***Data in accordance with approved financial statements for 2016

Consolidated statement of changes in equity shall be analysed together with selected disclosures and notes to the consolidated Financial Statements on pages 7 do 44.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the period from 1 January to 31 December 2017

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	Restated* For the period: from 01.01.2016 to 31.12.2016 PLN'000
Cash flows from operating activities		
Net profit for the reporting period	**5 339**	**14 024**
Adjustments:		
Depreciation of tangible fixed assets	378	40
Foreign exchange differences on bonds	(879)	836
Share-based incentive programmes	4 020	2 741
Interest income	-	(4)
Interest expenses	2 242	3 301
Paid Income tax	(4 203)	(56)
Other adjustments	4 065	(279)
Change in provisions	(1 860)	(10 801)
Change in trade and other receivables	(4 255)	11 423
Change in trade and other payables	(1 238)	5 797
Change in the level of deferred tax assets and liabilities	5 928	(969)
Net cash from operating activities	**9 537**	**26 053**
Cash flows from investment activities		
Inflows from sale of fixed assets	2	-
Outflows for the purchase of fixed assets	(69)	(15)
Other investment income and expenses	2	555
Net cash from investment activities	**(65)**	**540**
Cash flows from financial activities		
Net proceeds from issue of shares and other instruments, capitals and equity contributions	-	4 753
Outflows for the purchase of own shares	(62)	-
Issue of bills of exchange	-	14 000
Repayment of financial liabilities with interest	(27 990)	(3 111)
Incurred financial liabilities	29 676	-
Commission on loans	(62)	-
Dividend payments with interests	(10 032)	(49 072)
Others	2	-
Net cash from financial activities	**(8 468)**	**(33 430)**
Net increase/(decrease) of cash and cash equivalents	**1 004**	**(6 837)**
Opening balance of cash and cash equivalents	2 154	9 010
Change in cash due to exchange rate differences	-	(19)
Closing balance of cash and cash equivalents	**3 158**	**2 154**

* For details please refer to **Change in comparative data** on page 9.

Consolidated statement of cash flows shall be analysed together with selected disclosures and notes to the consolidated Financial Statements on pages 7 do 44.

SELECTED DISCLOSURES

General Information

The Company Private Equity Managers S.A. (hereinafter referred to as "the Company" or "PEM") by decision of the District Court for the Capital City of Warsaw, 12th Economic Division of the National Court Register in Poland, was registered in the National Court Register on 25 November 2010 with the number 0000371491.
The Company details:
- REGON (statistical number): 142695638
- NIP (tax identification number): 525-24-93-938
- The Company's registered office is in Pl. Europejski 1 in Warsaw
- The Company's lifetime is indefinite.

The Company Private Equity Managers S.A. is parent company of the Capital Group Private Equity Managers S.A. ("PEM Group", "CG PEM" or "Group").

PEM Group does not have internal organisational units.

The Group Private Equity Managers S.A. specialises in managing various classes of assets. Operations of PEM Group concentrate on managing assets of investments funds of the *private equity, venture capital and mezzanine debt* type.

Composition of the Capital Group Private Equity Managers S.A. as at 31 December 2017

Parent company:
- **Private Equity Managers S.A.** (hereinafter: PEM)

Subsidiaries:
- **MCI Capital Towarzystwo Funduszy Inwestycyjnych S.A.**
  Manages investment funds.
- **PEMSA Holding Limited**
  A Cyprus company, holds certificates of MCI.Partners FIZ, closed-end investment fund
- **MCI.Partners FIZ**
  Closed-end investment fund of non-public assets dedicated to entities from the Group
- **MCI Asset Management Spółka z ograniczoną odpowiedzialnością Spółka Jawna**
  (hereinafter: MCI Asset Management Sp. z o.o. Sp.j.)
  Company managing the following funds: MCI.PrivateVentures FIZ, MCI.CreditVentures 2.0 FIZ, Helix Ventures Partners FIZ, Internet Ventures FIZ until 29 October 2015
- **MCI Asset Management Spółka z ograniczoną odpowiedzialnością**
  (hereinafter: MCI Asset Management Sp. z o.o.)
  General Partner of MCI Asset Management Sp. z o.o. II S.K.A., MCI Asset Management Sp. z o.o. IV S.K.A., MCI Asset Management Sp. z o.o. V S.K.A.
- **MCI Asset Management Spółka z ograniczoną odpowiedzialnością II S.K.A. in liquidation**
  (hereinafter MCI Asset Management Sp. z o.o. II S.K.A. in liquidation). Resolution on liquidation was taken on 20 July 2017
- **MCI Asset Management Spółka z ograniczoną odpowiedzialnością IV S.K.A. in liquidation**
  (hereinafter MCI Asset Management Sp. z o.o. IV S.K.A. in liquidation). Resolution on liquidation was taken on 16 January 2017
- **MCI Asset Management Spółka z ograniczoną odpowiedzialnością V S.K.A.**
  (hereinafter MCI Asset Management Sp. z o.o. V S.K.A.)
  Holds in its portfolio the company MCI Asset Management Sp. z o.o. sp.j.
- **PEM Asset Management Sp. z o.o.**
  (hereinafter: PEM AM)
  Company managing the following funds: MCI.PrivateVentures FIZ, MCI.CreditVentures 2.0 FIZ, Helix Ventures Partners FIZ, Internet Ventures FIZ
- **MCI Ventures Sp. z o.o.**
  Company which business activity is advisory relating to management and financial holdings' activities (since 20 October 2016 in Capital Group Private Equity Managers S.A.)
- **Helix Ventures Asset Management Sp. z o.o.**
  An indirect subsidiary of PEM and direct subsidiary of PEM AM, in which PEM AM holds 65% shares. As of 31 December 2017, the company did not conduct business activity

In all subsidiaries listed above (except for Helix Ventures Asset Management Sp. z o.o.), PEM holds directly or indirectly 100% of shares 100% of votes.

Basis for preparation of the Financial Statements

These consolidated Financial Statements have been prepared in line with the International Financial Reporting Standard approved of by the European Union ("IFRS"). IFRS include standards and interpretations issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) and incorporated to the EU law as implementing regulations.

Date of the approval of the consolidated Financial Statements for the current reporting period

These consolidated Financial Statements were approved of by the Company's Management Board on 28 March 2018.

Date of the approval of the consolidated Financial Statements for the previous reporting period

The financial statements for the previous reporting period, i.e. from 1 January 2016 to 31 December 2016 were approved by the Ordinary Shareholders' Meeting on 29 June 2017. On 26 July 2017 the financial statements for 2016 were filed in the District Court in Warsaw with an update to the National Court Register.

Functional and presentation currency

Figures presented in the consolidated Financial Statements are calculated and presented in a currency applied in the economic environment in which the Group runs its operations ("functional currency"), i.e. Polish zloty. Figures in the consolidated financial statements are presented in thousands Polish zlotys (TPLN) unless stated otherwise.

For the company PEMSA Holding Limited – the functional currency is EUR. For consolidation purposes, the Financial Statements are converted to PLN.

As at the reporting date financial statements which have other functional currency than PLN and which undergo consolidation process are translated into PLN according to the following principles:

- assets and liabilities, except of equity, are translated at the closing exchange rate at the date of the balance sheet as announced by the National Bank of Poland,
- income and expenses from statement of profit or loss are translated at exchange rate calculated as arithmetic average of exchange rates at the last day of each month of the reporting period,
- equity is translated at the exchange rate as of the acquisition day as announced by the National Bank of Poland.

Accounting estimates and judgments

Preparation of the consolidated Financial Statements requires the Management Board to make estimates and assumptions which affect the application of the adopted accounting principles and presented figures disclosed in the Financial Statements. Real values may differ from the estimates.

All judgments, assumptions and estimates which have been made for the purpose of these Financial Statements have been presented in obligatory disclosures related to particular items of these Financial Statements and in the notes to the Financial Statements which are integral part of the Financial Statements. Estimates and judgments are subject to continuous verification. They result from previous experience, including forecasts as to future events, which are relevant in a given situation, and new information.

Below are main assumptions related to the future and other principal reasons for uncertainty of estimates as at the balance sheet date.

Asset management revenues

Remuneration for asset management is determined based on net asset value of funds managed by the Group. Measurement of funds' net assets is based on estimated fair value of funds' investments in shares in portfolio companies. Adopted measurement models and assumptions materially affect this estimated value.

Impairment test

To determine the value in use the Group estimates future cash flows related to the further use or disposal of a component of assets and discounts these values. Adopted measurement models and assumptions materially affect this estimate.

Share-based payments

The value of particular share-based payments is defined based on the Group's estimates adopted to measure the fair value of granted equity instruments, including actual exercise price of PEM's shares as at the "grant date", estimates of historical volatility, free-risk interest rate, expected dividend rate, a period in which authorised individuals can execute rights under the programme and the adopted measurement model.

Remuneration for disinvestment (Carry fee)

Remuneration (provision) for disinvestment is calculated based on parameters of a real purchase proposition of a given company (partial or complete disinvestment) and it cannot exceed 5% of net profit from a given investment calculated as a difference between revenue from sales of shares and costs incurred for a given investment, increased by 10%, i.e. expected rate of return on investment (hurdle rate) per annum in the period from the moment the cost was incurred to the moment of receiving revenue from the sale of shares. Provision for variable remuneration is updated quarterly based on a quarterly fair value update of investment in portfolio company.

Deferred tax assets

Deferred tax asset is presented in the amount expected to be deducted from the income tax in the future as a result of negative taxable transitional differences, which will in the future reduce the tax base and deductible tax losses, determined using the precautionary principle. The deferred tax asset is calculated using tax rates valid when the asset is realised. The value of the deferred tax component is subject to an analysis as at each reporting date and in the case when the expected future tax income is insufficient to realise the component of assets or part thereof, it is written off.

Accounting policy

Accounting policy applied in these consolidated financial statements are the same as applied in the consolidated financial statements of the Group for the year ended 31 December 2016.

Change in comparative data

In these consolidated financial statements, following changes in comparative data have been made:

1) Correction of VAT settlements – correction of error

During calculation of the tax indicator applied for reducing tax due by input tax in accordance with Article 90 of Act on value added tax for 2017, the Group has identified improper approach to identification of transactions of purchase of goods and services, which are used in taxed activity. Therefore, the Group has verified the coefficient for previous years. As a result of the verification, the Group had to change tax indicators for previous years, which subsequently required VAT tax returns to be corrected. Following described correction, the Group has restated comparative data concerning years 2015-2016 in the way presented below:

Statement of profit or loss and other comprehensive income
For the period from 01.01.2016 to 31.12.2016

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	(1)	For the period: from 01.01.2016 to 31.12.2016 PLN'000
	Approved financial statements	**Correction of VAT settlements**	**Data restated in these financial statements**
Revenues from fund management	44 103	-	44 103
Costs of basic activities	(10 285)	-	(10 285)
Gross profit on base business	**33 818**	**-**	**33 818**
Operating expenses	(15 811)	(381)	(16 192)
Other operating income	236	(31)	205
Other operating expenses	(131)	-	(131)
Profit on operating activities	**18 112**	**(412)**	**17 700**
Finance income	58	-	58
Finance expenses	(4 540)	-	(4 540)
Profit before taxation	**13 630**	**(412)**	**13 218**
Income tax	806	-	806
Net profit	**14 436**	**(412)**	**14 024**

Statement of financial position as at 31.12.2016

	As at 31.12.2016 PLN'000	(1)	As at 31.12.2016 PLN'000
	Approved financial statements	**Correction of VAT settlements**	**Data restated in these financial statements**
Non-current assets			
Tangible fixed assets	737	148	885
Intangible assets	15	-	15
Goodwill	83 969	-	83 969
Deferred income tax assets	11 001	-	11 001
Trade and other receivables	187	-	187
	95 909	**148**	**96 057**
Current assets			
Trade and other receivables	12 101	(1 168)	10 933
Cash and cash equivalents	2 154	-	2 154
	14 255	**(1 168)**	**13 087**
			-
Total assets	**110 164**	**(1 020)**	**109 144**
Equity			
Share capital	3 424	-	3 424
Reserve capital	40 413	-	40 413
Other reserve capital	6 727	-	6 727
Undistributed loss from previous year	(17 165)	(716)	(17 881)
Other comprehensive income	(796)	-	(796)
Net profit	14 436	(412)	14 024
	47 039	**(1 128)**	**45 911**
Non-current liabilities			
Liabilities on bonds	20 652	-	20 652
Provisions	14 553	-	14 553
	35 205	**-**	**35 205**
Current liabilities			
Trade and other liabilities	10 850	108	10 958
Liabilities on bonds	2 314	-	2 314
Loans	13	-	13
Bills of exchange	14 133	-	14 133
Provisions	610	-	610
	27 920	**108**	**28 028**
Total equity and liabilities	**110 164**	**(1 020)**	**109 144**

Statement of financial position as at 01.01.2016

	As at 01.01.2016 PLN'000	(1)	As at 01.01.2016 PLN'000
	Approved financial statements	Correction of VAT settlements	Data restated in these financial statements
Non-current assets			
Tangible fixed assets	101	-	101
Intangible assets	17	-	17
Goodwill	83 969	-	83 969
Deferred income tax assets	10 194	-	10 194
Trade and other receivables	390	-	390
	94 671	-	**94 671**
Current assets			
Trade and other receivables	22 153	-	22 153
Cash and cash equivalents	9 010	-	9 010
	31 163	-	**31 163**
Assets held for liquidation	**562**	**-**	**562**
Total assets	**126 396**	-	**126 396**
Equity			
Share capital	3 335	-	3 335
Reserve capital	35 391	-	35 391
Other reserve capital	4 074	-	4 074
Undistributed loss from previous year	(17 735)	-	(17 735)
Other comprehensive income	(796)	-	(796)
Net profit	49 643	(716)	48 927
	94 657	**(716)**	**73 196**
Non-current liabilities			
Liabilities on bonds	19 228	-	19 228
Provisions	24 911	-	24 911
	44 139	**-**	**44 139**
Current liabilities			
Trade and other liabilities	4 445	716	5 161
Liabilities on bonds	2 847	-	2 847
Provisions	1 053	-	1 053
	8 345	**716**	**9 061**
Total equity and liabilities	**126 396**	**-**	**126 396**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the period from 1 January to 31 December 2017

1. Revenues from fund management

The Group revenues consist mainly of:

– Fixed remuneration – this remuneration is calculated on a day following the day of net asset measurement of a given fund as percentage of net asset value of this fund as at measurement day and is calculated for each day of the year. This fee is payable on a quarterly basis. For sub-funds MCI.EuroVentures 1.0. and MCI.TechVentures 1.0. separated within MCI.PrivateVentures FIZ and MCI CreditVentures 2.0 FIZ the fixed remuneration is calculated on net asset value as at the end of the previous quarter (or the most recent measurement). For Helix Ventures Partners FIZ the fixed remuneration is calculated on an amount actually invested, less value of securities (at the acquisition price), which have been disposed of or recognised as losses. The fixed remuneration for Internet Ventures is defined as an amount based on the fund's articles of association. Fund's artices of association define maximum amount of fixed remuneration. This value has already been exceeded, therefore fixed remuneration was not accrued in 2017.

– Variable remuneration – this remuneration depends on the increase of net asset value of a given fund as per one investment certificate above a defined value. This remuneration is calculated as at each measurement day (if there's a basis for calculating variable remuneration). Thresholds above which the variable fee is calculated are defined in articles of association of funds for each series of investment certificates.

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	For the period: from 01.01.2016 to 31.12.2016 PLN'000
Fixed remuneration for fund management:		
Sub-fund MCI.TechVentures 1.0.	25 039	22 580
Sub-fund MCI.EuroVentures 1.0.	14 195	15 935
MCI.CreditVentures 2.0 FIZ	2 913	1 616
Internet Ventures FIZ	2 973	1 781
Helix Ventures Partners FIZ	-	(35)
Total	**45 120**	**41 877**
Variable remuneration for fund management:		
Sub-fund MCI.TechVentures 1.0.	186	562
Sub-fund MCI.EuroVentures 1.0.	32	387
MCI.CreditVentures 2.0 FIZ	2 314	1 084
Total	**2 532**	**2 033**
Other revenues		
Handing fee	-	63
Other revenues	-	130
Total	**-**	**193**
Total revenues from fund management	**47 652**	**44 103**

Higher value of fund management revenues in 2017 in comparison to previous year resulted from significantly higher fixed remuneration. Fixed remuneration is strongly correlated with net assets value of managed funds, which average value was higher in 2017 in comparison to previous year.

Net assets value under management

	As at 31.12.2017 PLN'000	As at 31.12.2016 PLN'000
*Sub-fund MCI.TechVentures 1.0.	864 301	990 248
**Sub-fund MCI.EuroVentures 1.0.	842 271	789 807
***MCI.CreditVentures 2.0 FIZ	201 559	185 894
****Internet Ventures FIZ	55 452	47 898
*****Helix Ventures Partners FIZ	8 100	9 574
	1 971 683	**2 023 421**

on the basis of reporting valuations of the above funds

*Drop in net assets value of the fund resulted mainly from redemption of investments certificates during the year, it has been slightly compensated by increase in value of investments of the subfund
**Main factor of the increase in net assets value was increase in value of investments of the subfund
***Main factor of the increase in net assets value was increase in value of investments of the fund and issue of new certificates
****Main factor of the increase in net assets value was increase in value of investments of the fund
*****Main factor of the decrease in net assets value was decrease in value of investments of the fund

2. Base business and general administration costs

Base business costs

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	For the period: from 01.01.2016 to 31.12.2016 PLN'000
Distribution costs at the sales of investment certificates	(8 660)	(8 988)
Above-the-limit costs of funds covered by TFI	(301)	(590)
Costs of auxiliary activities related to keeping record of funds' participants	(194)	(164)
Other costs	(760)	(543)
	(9 916)	**(10 285)**

General administration costs

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	Restated For the period: from 01.01.2016 to 31.12.2016 PLN'000
Depreciation/ amortisation of fixed and intangible assets	(378)	(40)
Use of materials and energy	(93)	(85)
Bought-in services, of which:	(4 907)	(4 149)
- costs of advisory and legal services	*(570)*	*(915)*
- costs of rental	*(1 045)*	*(823)*
- costs of accounting	*(403)*	*(370)*
- costs of marketing, including conferences	*(361)*	*(315)*
- costs of audit services	*(575)*	*(468)*
- costs of public trading	*(121)*	*(170)*
- costs of recruitment	*(260)*	*(30)*
- costs of information services	*(152)*	*(223)*
- other services	*(261)*	*(160)*
- costs of advisory and legal services	*(1 159)*	*(675)*
Taxes and charges	(107)	(33)

Remuneration, of which:	(12 413)	(10 615)
*- fixed remuneration**	*(8 233)*	*(6 242)*
- variable remuneration	*(4 180)*	*(4 373)*
Social insurance and other benefits	(364)	(344)
Other costs	(1 221)	(926)
	(19 483)	**(16 192)**

*Increase in costs of fixed remuneration in 2017 results mainly from higher number of employees in PEM AM, as well as from higher global level of remuneration.

3. Other operating income and other operating costs

Other operating income

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	Restated For the period: from 01.01.2016 to 31.12.2016 PLN'000
Income from sub-lease	-	7
Correction of remuneration costs from the incentive program	-	181
Other operating income	157	17
	157	**205**

Other operating costs

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	For the period: from 01.01.2016 to 31.12.2016 PLN'000
Re-invoiced costs	-	(6)
Charges, penalty interests and other penalties	(136)	-
Impairment losses on receivables	(12)	(97)
Other operating costs	(67)	(28)
	(215)	**(131)**

4. Financial income and costs

Financial income

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	For the period: from 01.01.2016 to 31.12.2016 PLN'000
Interest on current bank deposits	17	54
Interest income on bonds	-	4
Foreign exchange gains*	1 014	-
Settlement of convertible bonds redemption (C series)**	863	-
Other financial income	5	-
	1 899	**58**

*Foreign exchange gains were generated on bonds of C series issued by the Company, related to strengthening PLN/EUR rate in the period from 1 January 2017 to 4 August 2017 (day of bonds redemption).
**Income realised on early redemption of C series bonds on 4 August 2017 is the difference between carrying amount and fair value of C series bonds as of the day of redemption.

Financial costs

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	For the period: from 01.01.2016 to 31.12.2016 PLN'000
Costs of interest on:		
Issued bills of exchange	(638)	(133)
Bank loans*	(575)	(174)
Issued bonds**	(1 857)	(3 388)
Foreign currency exchange gains or losses***	-	(836)
Fee on loan granted	(64)	-
Other financial costs	(157)	(9)
	(3 291)	**(4 540)**

*Increase in costs of interests on bank loans result from incurring new bank loans in ING Bank Śląski S.A. For details please refer to: **Note 16 *"Bank loans"***
**Drop in interest costs on issued bonds resulting from redemption of C series bonds on 4 August 2017, so consequently the Group did not incur interest costs in the major part of second half of 2017. Issue of the abovementioned bonds took place in 2015, therefore in 2016 the Group incurred interests costs throughout entire year.
***Losses generated on foreign currency exchange in 2016 relate to C series bonds issued by PEM and weakening of PLN in relation to EUR in 2016.

5. Income tax and deferred income tax

Income tax recognised in the statement of comprehensive income

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	For the period: from 01.01.2016 to 31.12.2016 PLN'000
Income tax - current part	(4 562)	-
Income tax - deferred part	2 756	806
Corrections included in current period, related to current income tax for previous periods*	(974)	-
Write-off of deferred tax assets*	(8 684)	-
	(11 464)	**806**

*At October 2015, a part of simplification of PEM Group structures, MCI Asset Management Sp. z o.o. sp.j. (former managing company) was disposed to PEM Asset Management Sp. z o.o. (current managing company).

On 15 July 2016 changes to tax law have been implemented in order to include provisions from the General Anti-Avoidance Rule ("GAAR" clause). GAAR clause has to be applied to all transactions concluded after entering into force of the clause, as well as to the transactions that have been concluded before entering into force of the clause, but for which after entering into force of the clause it was possible to benefit from those transaction.

Therefore, the Group has analysed tax settlements, which led to a conclusion that by virtue of tax law, including the GAAR clause, as well as Statements from the Ministry of Finance, including "Statement of PFSA on impact of rules on tax anti-avoidance on the financial statements of public listed companies", tax settlements of the PEM Tax Group could have been questioned by the tax authorities.

For this reason, the Group has changed its judgment on:
a) the legitimacy of including costs of tax amortization of goodwill created in connection with purchase of MCI Asset Management Sp. z o.o. sp.j. in 2015 in tax costs;
b) the legitimacy of retaining deferred tax assets related to the abovementioned tax goodwill.

Within the PEM Group there has been operating the Private Equity Managers S.A. Tax Group (the "PEM Tax Group") since 1 July 2016. Following changes in estimates, the PEM Tax Group has modified tax settlements effective since 1 July 2016 (i.e. since the beginning of existence of PEM Tax Group and since entering into force of the GAAR clause), which had an impact on tax settlements of the PEM Tax Group. Correction included:

a) Withdrawal of amortization of tax goodwill, which have been treated as tax cost – the PEM Tax Group has included change in estimates in tax return for the period from 1 July 2016 to 30 June 2017 and consequently paid current income tax in the amount of 2.936 PLN thousand, including 974 PLN thousand related to the period from 1 July 2016 to 31 December 2016.
b) Write-off of entire deferred tax assets related to tax goodwill disclosed in consolidated financial statements in the amount of 8.684 PLN thousand.

Correction of deferred tax asset is an one-off, non-cash event, which will not have impact on operating results of the Group.

Income tax reconciliation

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	For the period: from 01.01.2016 to 31.12.2016 PLN'000
Profit before taxation	17 071	13 738
Income tax recognized in the financial result	1 806*	(806)
Effective tax rate	10,6%	(5,9%)
Non-taxable income (-)	***(7 653)***	***(12 501)***
Settlement of redemption of convertible C series bonds	*(863)*	*-*
Unrealised foreign exchange differences	*(851)*	*-*
Dissolution of provision for bonuses	*(5 303)*	*(11 507)*
Dissolution of provision for current costs	*(636)*	*(677)*
Settlement of option programmes	*-*	*(181)*
Taxable income of previous year	*-*	*(127)*
Other non-taxable income	*-*	*(9)*
Tax income not recognised in the income statement (+)	***3 529***	***2 989***
Interests received -cash pool	*3 363*	*2 641*
Interests received -loans	*5*	*-*
Dissolution of provision for income	*-*	*41*
Interests received -bonds	*-*	*14*
Interests received -bills of exchange	*-*	*173*
Other tax income not recognised in the income statement	*161*	*120*
Costs recognised in the income statement that are not tax costs (+)	***12 079***	***12 221***
Provision for bonuses	*1 857*	*2 866*
Provision for current costs	*745*	*606*
Provision for Kick-Back	*1 018*	*-*
Kick-back costs - unpaid	*-*	*862*
Settlement of option programmes	*4 462*	*2 808*
Unrealised foreign exchange differences	*-*	*839*
Valuation of interests on other financial liabilities	*2 366*	*3 215*
Interests and commissions paid	*489*	*15*
Penalties and compensations	*136*	*-*
Other non-tax costs	*1 005*	*826*
Correction of VAT	*-*	*184*
Tax costs not recognised in the income statement (-)	***(1 083)***	***(21 554)***
Kick-back costs - paid	*(862)*	*-*
Tax amortization of goodwill	*-*	*(21 439)*
Other tax costs not recognised in the income statement	*(37)*	*(115)*
Correction of VAT	*(184)*	*-*
	6 872	(40 284)

Taxable amount	**24 009**	**(27 415)**
Current income tax	**4 562**	**-**
Utilised tax losses from the previous years	**-**	**563**
Tax gains/(losses) of other companies**	**(80)**	**(10 210)**

*Income tax disclosed in the income statement excluding correction of transactions from previous periods.
**Tax profit/(loss) of other companies for 2016 relate to tax profit or losses generated by other companies comprising PEM Tax Group in the period from 1 January 2016 to 30 June 2016, which is before establishment of PEM Tax Group.

Accountable tax losses as at 31 December 2017

Incurred in	Incurred at	Utilised in previous periods in amount	Utilised in current period in amount	To be utilised at	To be utilised until
year	**000'PLN**	**000'PLN**	**000'PLN**	**000'PLN**	**year**
2012	1 487	(108)	-	690*	1 year after exit from the Tax Group
2013	2 047	(1 135)	-	912	2 years after exit from the Tax Group
2014	1 734	-	-	1 734	3 years after exit from the Tax Group
2015	9 811	-	-	9 811	4 years after exit from the Tax Group
01-06.2016	2 639	-	-	2 639	5 years after exit from the Tax Group
	18 184	**(1 382)**	**-**	**15 786**	

*Half of the tax loss generated in 2012 remains for utilisation

Accountable tax losses as at 31 December 2016

Incurred in	Incurred at	Utilised in previous periods in amount	Utilised in current period in amount	To be utilised at	To be utilised until
year	**000'PLN**	**000'PLN**	**000'PLN**	**000'PLN**	**year**
2012	1 487	(108)	-	690	1 year after exit from the Tax Group
2013	2 047	(572)	(563)	912	2 years after exit from the Tax Group
2014	1 734	-	-	1 734	3 years after exit from the Tax Group
2015	9 811	-	-	9 811	4 years after exit from the Tax Group
2016	10 716	-	-	10 716	5 years after exit from the Tax Group
	25 795	**(1 382)**	**-**	**23 683**	

Deferred tax

	As at 31.12.2017 PLN'000	As at 31.12.2016 PLN'000
Deferred tax assets:		
Due for settlement after 12 months	3 000	2 317
Due for settlement within 12 months	3 128	
	6 128	**2 317**
Deferred tax liabilities:		
Due for settlement after 12 months	-	-
Due for settlement within 12 months	1 055	-
	1 055	**-**

Deferred tax assets

	Tax losses which can be deducted	Other titles	Total
	000' PLN	000' PLN	000' PLN
As at 1 January 2016	**2 631**	**7 563**	**10 194**
Effect on profit or loss	1 723	(916)	807
Effect on equity	-	-	-
As at 31 December 2016	**4 354**	**6 647**	**11 001**
Effect on profit or loss	180	3 631	3 811
Effect on profit or loss – correction of transactions from previous periods	(1 534)	(7 150)	(8 684)
Effect on equity	-	-	-
As at 31 December 2017	**3 000**	**3 128***	**6 128**

*Deferred tax assets as at 31 December 2017 consist mainly of deferred tax asset on Carry Fee provision (2.261 PLN thousand).

Deferred tax liability

	Other liabilities	Total
	000' PLN	000' PLN
As at 1 January 2016	**-**	**-**
Effect on profit or loss	-	-
Effect on equity	-	-
As at 31 December 2016	**-**	**-**
Effect on profit or loss	1 055	1 055
Effect on equity	-	-
As at 31 December 2017	**1 055***	**1 055**

*Deferred tax liabilities as at 31 December 2017 consist mainly of deferred tax liability on interest accrued on B series bonds in MCI Asset Management Sp. z o.o. V S.K.A. (1.055 PLN thousand).

Private Equity Managers S.A. is a parent company in the PEM Tax Group established together with PEM Asset Management Sp. z o.o. and MCI Capital TFI S.A. at half of 2016. Fiscal year of the PEM Tax Group lasts from 1 July to 30 June. Agreement has been signed for 3 consecutive fiscal years. As of the day of preparation present financial statements, the Group is during the second fiscal year of the PEM Tax Group.

During the PEM Tax Group lifetime, companies comprising the PEM Tax Group are obliged to maintain the profitability ratio at 3% or higher (profit/income). Otherwise, the PEM Tax Group will be dissolved. At the same time, companies comprising the PEM Tax Group are not entitled to benefit from any other tax exemptions based on separate acts.

Losses generated by companies before establishing the PEM Tax Group do not expire. Therefore, companies comprising the PEM Tax Group will be entitled to settle tax losses through 5 subsequent years after dissolving the PEM Tax Group.

Therefore, the Group has included deferred tax losses arisen before establishment of the PEM Tax Group due to the fact that it will be settled in subsequent period (deferred tax assets subject to utilization after 12 months). At the same time, the Group confirms that it is able to generate taxable income that will allow to utilize the tax losses.

6. Earnings per share

Earnings per share

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	Restated For the period: from 01.01.2016 to 31.12.2016 PLN'000
Earnings attributable to shareholders of the Company	5 339	14 024
Weighted average no of ordinary shares (in 000s)	3 424	3 394
Basic earnings per share (in PLN per one share)	**1,56**	**4,13**

Diluted earnings per one share

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	Restated For the period: from 01.01.2016 to 31.12.2016 PLN'000
Earnings attributable to shareholders of the Company	5 339	14 024
Earnings applied when determining diluted earnings per share	5 339	16 590
Cost of interest on bonds (PLN 000s)	-	3 168
Net cost of interest on bonds (PLN 000s)	-	2 566
Weighted average no of ordinary shares (in 000s)	3 424	3 394
Adjustments related to:		
incentive programme based on the issue of shares and share options (in 000s)	-	26
bonds convertible into shares (000s)	-	246
Weighted average no. of ordinary shares for the purposes of diluted earnings per share (thousands)	3 424	3 666
Diluted earnings per share (in PLN per one share)	**1,56**	**4,53**

7. Goodwill

	Balance as at 31.12.2017 PLN'000	Balance as at 31.12.2016 PLN'000
MCI Capital TFI S.A.	8 749	8 749
PEM Asset Management Sp. z o.o.	75 220	75 220
	83 969	**83 969**

Calculating goodwill

	MCI Capital TFI S.A.	MCI Asset Management Sp. z o.o. Sp. j.	Reclassification*	MCI Asset Management Sp. z o.o. Sp.j. after reclassification	PEM Asset Management Sp. z o.o.	MCI Ventures Sp. z o.o.	Total
Purchase price	-	15 400	(15 400)	-	15 400	-	15 400
Fair value of net assets taken over	-	1 304	(1 304)	-	1 304	-	1 304
Goodwill in 2010	**-**	**14 096**	**(14 096)**	**-**	**14 096**	**-**	**14 096**
Purchase price	17 162	88 100	(88 100)	-	88 100	-	105 262
Fair value of net assets taken over	8 413	26 982	(26 982)	-	26 982	-	35 395
Goodwill in 2012	**8 749**	**61 118**	**(61 118)**	**-**	**61 118**	**-**	**69 867**
Purchase price	-	-	-	-	11	-	11
Fair value of net assets taken over	-	-	-	-	5	-	5
Goodwill in 2015	**-**	**-**	**-**	**-**	**6**	**-**	**6**
Purchase price	-	-	-	-	-	-	-
Fair value of net assets taken over	-	-	-	-	-	-	-
Goodwill in 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Goodwill	**8 749**	**75 214**	**(75 214)**	**-**	**75 220**	**-**	**83 969**

*Please refer to description of goodwill – PEM Asset Management Sp. z o.o.

Goodwill – MCI Capital TFI S.A.

In January 2012 100% shares of the company MCI Capital Towarzystwo Funduszy Inwestycyjnych S.A. held by MCI Management S.A. (currently MCI Capital S.A.) were contributed as a contribution-in-kind to Private Equity Managers S.A. (formerly MCI Partners SA.).

The resolution on the contribution-in-kind was passed at the Extraordinary Shareholders Meeting MCI Partners S.A. on 12 January 2012, hence MCI Partners S.A. resolved an increase of share capital and capital redemption reserve by the value of the contributed shares.

The share subscription agreement was signed on 5 February 2012 under which MCI Management S.A. subscribed 5.056.000 shares in the increased capital of MCI Partners S.A. with numbers from C0.000.001 to C5.056.000. The shares subscribed by MCI Management S.A. were covered with a contribution-in-kind of 2.475.000 registered shares of MCI Capital TFI S.A. of a value PLN 1,00 each and of a total fair value of TPLN 10.112.

On 13 March 2012, due to the requirement to remedy the deficiencies in share capitals in MCI Capital TFI S.A., the Extraordinary Shareholders Meeting of MCI Capital TFI S.A. resolved on increasing the share capital in line with the capital requirement for 2012. Share capital increase by PLN 7.050.000, from PLN 2.475.000 to PLN 9.525.000 was resolved at the Extraordinary Shareholders Meeting. The share capital was increased through issuing 7.050.000 registered K series shares of a nominal value PLN 1,00 each. The K series shares are not privileged. The issue price of K series shares is PLN 1,00 per share. Shares of the new issue of K series have participated in the dividend since 1 January 2012.

The shares in the increased share capital were subscribed through a private subscription addressed to MCI Partners S.A. accepted the offer and subscribed all 7.050.000 registered K series shares of a nominal value PLN 1,00 each and a total fair value of TPLN 7.050.

The total value of subscribed shares was TPLN 17 162, whereas the fair value of acquired assets was TPLN 8.413.

Goodwill – MCI Asset Management Sp. z o.o. Sp.j.

Goodwill arising in 2010

On 31 December 2010 the Company's Extraordinary Shareholders Meeting agreed to increase the contribution of MCI Management S.A. (currently MCI Capital S.A.), as the Company's General Partner, from PLN 100,00 to PLN 15.400.100,00, i.e. by PLN 15.400.000 through contributing by MCI Management S.A., as General Partner, an organised part of the enterprise. The contributed organised part of the enterprise is a financially and organisationally separate set of material and non-material elements intended for execution of economic operations within the segment of MCI Management S.A. operating in the sector of investment funds and advisory for investment funds.

The value of the organised part of the enterprise is PLN 15.400.000. The measurement was verified by and independent licensed auditor.

The book value of the organised part of the enterprise is TPLN 1.304.

Goodwill arising in 2012

On 9 May 2012 100% shares of MCI Asset Management Sp. z o.o. S.K.A. was sold by the fund MCI.PrivateVentures FIZ acting for the benefit of the sub-fund MCI.EuroVentures 1.0. for the benefit of the fund MCI Partners FIZ.

50.000 A series shares were sold at a nominal value PLN 1,00 each, i.e. at a total nominal value of PLN 50.000. The selling price of one share was PLN 1.762,00 per each share. The total selling price of shares was PLN 88.100.000.

The parties agreed a payment for the purchased shares based on a set-off agreement concluded on 9 May 2012. Pursuant to this agreement, the debt of the fund purchasing the shares of MCI.Partners FIZ was set-off against the debt of the Seller on account of the obligation to pay the price of A series bonds issued by MCI Partners S.A. The difference of PLN 200 arising on debts on account of bond sales (i.e. PLN 88.100.200) and debts on the sales of shares of MCI Asset Management Sp. z o.o. S.K.A. was paid on 22 May 2012 by the fund MCI.PrivateVentures FIZ acting for the benefit of the sub-fund MCI.EuroVentures 1.0.

Fair value of the acquired non-current assets was TPLN 26 982.

Goodwill – PEM Asset Management Sp. z o.o.

Due to the sale of MCI Asset Management Sp. z o.o. Sp.j. to PEM Asset Management Sp. z o.o. the goodwill arose in 2010 and in 2012 in MCI Asset Management Sp. z o.o. Sp.j. was transferred to PEM Asset Management Sp. z o.o. The company's goodwill did not arise on the very same sales transaction, because due to the fact that the transaction took place between entities under joint control, the value of the sold entity was recognised in the books of PEM Asset Management Sp. z o.o. at fair value.

Goodwill – MCI Ventures Sp. z o.o.

On 20 October 2016 100% of MCI Ventures Sp. z o.o. shares (corresponding to 100 shares in the share capital of the company) were sold by MCI.TechVentures 1.0 Sub-fund separated within MCI.PrivateVentures FIZ to PEM. Sale price amounted to 1 PLN, due to indebtedness of the company (at the date of sale the company had negative equity of 10 thousand PLN). Due to negative equity, fair value of the company amounts to 0 PLN.

Test for impairment of goodwill conducted in 2017

Tests for impairment of goodwill are conducted at least once a year, or more frequently if there are grounds that impairment of goodwill might have taken place.

In 2017 the Group tested for impairment the following companies:

- MCI Capital TFI S.A.,
- PEM Asset Management Sp. z o.o.

As part of the test the Group defined cash generating units, not larger than the operating segment, to which goodwill has been allocated of a total value of TPLN 83.969. There were no additional elements of intangible assets with an indefinite useful life that could be classified as identified cash generating units.

Test for impairment of goodwill of individual cash generating units was conducted based on value in use of cash generating units compared to their book value.
The value in use of shares in MCI Capital TFI was determined based on the model of discounted dividends. The key assumptions for the model are:

- forecasting period,
- expected net asset value of funds managed by MCI Capital TFI,
- value of dividends possible to be paid in the forecasting period in line with externally determined capital requirements,
- dividend growth rate after the forecasting period,
- residual value of dividends which possible to be paid,
- discount rate.

The value in use of shares in PEM Asset Management Sp. z o.o. was determined based on the model of discounted dividends granted that the dividends would be paid in the forecasting period at the level of 100%. Other key assumptions for the model are:

- forecasting period,
- expected value of cash flows in the forecasting periods,
- growth rate after the forecasting period,
- residual value,
- discount rate.

Below are key assumptions applied to calculate the value in use of individual cash generating units and the value-in-use surplus over goodwill.

	PEM Asset Management Sp. z o.o.* PLN'000	MCI Capital TFI S.A. PLN'000
Value in use		
Assumptions applied to calculate value in use:		
- Discount rate**	10,9%	10,9%
Value in use	**368 700**	**18 300**
Goodwill	**75 220**	**8 749**
Surplus over goodwill	**293 480**	**9 551**

*until 29.10.2015 the company goodwill was disclosed in MCI Asset Management Sp. z o.o. Sp. j. (for details please refer to "Calculating Goodwill")
**discount rate includes: free risk rate 3,3%, risk premium 6,5%, premium for the Company's size 1,1%. Discount for little liquidity was adopted at the level of 20%.

The Company's value in use was estimated through the model of discounted dividends (residual value of hypothetical dividends).

The measurement of value in use was performed with the application of a 3-year forecasting period and a growth rate after the forecasting period of 2,0%.

The test showed no impairment of goodwill.

With respect to MCI Ventures Sp. z o.o. impairment test was not carried out due to the fact that shares in the company were purchased on 20 October 2016. Since the moment of share purchase to the balance sheet date the financial situation of the company has not changed, and its fair value amounts to 0 PLN (due to negative equity).

8. Trade and other receivables

	Balance as at 31.12.2017 PLN'000	Restated Balance as at 31.12.2016 PLN'000
Receivables on management fees, including:	14 758	10 626
- variable fee	2 415	70
- fixed fee	12 280	10 436
- handing fees	6	120
- others	57	-
Receivables from related entities	6	3
Other trade receivables	63	40
Tax / budget fees	22	-
Prepayments	381	25
Other receivables	145	426
	15 375	**11 120**
Including:		
Non-current part:	7	187
Current part:	15 368	10 933
	15 375	**11 120**

9. Cash and cash equivalents

The balance of cash and cash equivalents of TPLN 3.158 as at the balance sheet date (as at 31 December 2016 amounted to TPLN 2.154) constituted cash at bank and bank deposits.

10. Equity

Share capital

	Balance as at 31.12.2017	Balance as at 31.12.2016
Share capital issued and paid (PLN 000s)	3 424	3 424
Number of shares	3 423 769	3 423 769
Nominal value per share (PLN)	1,00	1,00
Nominal value of all shares (PLN 000s)	**3 424**	**3 424**

Reserve capital

	Balance as at 31.12.2017 PLN'000	Balance as at 31.12.2016 PLN'000
Balance at the beginning of period	**40 413**	**35 391**
Capital from issue of convertible bonds	(3 230)	-
Acquisition of shares related to settlement of option program – agio	-	5 022
Cover of loss with the reserve capital	(37 689)	-
Transfer of profit for previous period to reserve capital	887	-
Balance at the end of period	**381**	**40 413**

Other reserves

	Balance as at 31.12.2017 PLN'000	Balance as at 31.12.2016 PLN'000
Balance at the beginning of period	**6 727**	**4 074**
Valuation of management options programme for members of the Management Board and the Supervisory Board in 2015	-	1 209
Valuation of management options programme for members of the Key Management Staff in 2016	-	1 533
Settlement of the management options programme for members of the Supervisory Board in 2012	(93)	-
Valuation of management option programme for members of the Key Management Staff 2017*	4 113	-
Registration of capital increase	-	(89)
Balance as at the end of period	**10 747**	**6 727**

*Incentive programmes described in **Note no. 17 *„Share based incentive programme”***.

11. Shareholders structure

Significant shareholders as at 31.12.2017

	Participation in the share capital		Participation in the total number of votes at the General Meeting	
	Number of shares	Participation in the share capital	Number of votes at the General Meeting	Share in the overall number of votes at the General Meeting
MCI Management Sp. z o.o.*	1 287 275	37,60%	1 287 275	37,60%
CKS Inwestycje Sp. z o.o.**	423 005	12,35%	423 005	12,35%
MCI Capital S.A.	350 641	10,24%	350 641	10,24%
AMC III Moon B.V.	277 921	8,12%	277 921	8,12%
Others***	1 084 927	31,69%	1 084 927	31,69%
	3 423 769	**100,00%**	**3 423 769**	**100,00%**

*Company controlled by Tomasz Czechowicz
**As at 27 December 2017
***Relates to shareholders holding below 5% of shares and votes

Significant shareholders as at 31.12.2016

	Participation in the share capital		Participation in the total number of votes at the General Meeting	
	Number of shares	Participation in the share capital	Number of votes at the General Meeting	Share in the overall number of votes at the General Meeting
MCI Management Sp. z o.o.*	1 287 275	37,60%	1 287 275	37,60%
CKS Inwestycje Sp. z o.o.**	544 005	15,89%	544 005	15,89%
MCI Capital S.A.	350 641	10,24%	350 641	10,24%
AMC III Moon B.V.	277 921	8,12%	277 921	8,12%
Others***	963 927	28,15%	963 927	28,15%
	3 423 769	**100,00%**	**3 423 769**	**100,00%**

*Company controlled by Tomasz Czechowicz
**Company controlled by Cezary Smorszczewski
***Relates to shareholders holding below 5% of shares and votes

12. Liabilities on bonds

	Balance as at 31.12.2017 PLN'000	Balance as at 31.12.2016 PLN'000
Carrying value of liability as at issue date	**40 000**	**63 296**
Equity component (without deferred tax)	-	(3 611)
Liability component as at issue date	**40 000**	**59 685**
Foreign exchange differences as at balance sheet date	-	2 184
Interest accrued - costs YTD	11 360	14 016
Interest paid – costs YTD	(5 852)	(10 139)
Exclusion from consolidation – sale to capital group	(45 508)	(42 780)
Carrying value of liability as at balance sheet date	**-**	**22 966**
Non-current part:	-	20 652
Current part:	-	2 314
	-	**22 966**

On 4 August 2017 the Company has redeemed all bonds taken by AMC III MOON B.V. Bonds were issued on 22 April 2014. Total nominal value of the bonds amounted to 5.850 EUR thousand. Due to the abovementioned fact, the Group did not have bond liabilities as at 31 December 2017.

13. Trade and other payables

	Balance as at 31.12.2017 PLN'000	Restated Balance as at 31.12.2016 PLN'000
Trade payables	879	872
Payables to related entities*	2 621	1 908
Tax liabilities	1 628	346
Renumeration payables**	-	2 330
Social insurance and other burdens	60	146
Carry fee liabilities***	1 164	2 648
Prepayments****	3 338	2 571
Other liabilities	30	137
	9 720	**10 958**

* Payables to related entities are presented in **Note No. 26 *"Related entities"***.
**As at 31 December 2016, the position consisted mainly of management options programme settled in cash.
***As at 31 December 2017, the position consisted mainly of liabilities due to recapitalization of investment in Naviexpert and partial exit from investment in Indeks Bilgisayar. Decrease in liability in comparison to 2016 stems from conversion significant part of provision for Carry Fee related to exit from investment in Wirtualna Polska into liability to be paid to managers.
****This position consists mainly of provisions for compensation of distributors of investment certificates.

14. Provisions

	Balance as at 31.12.2017 PLN'000	Balance as at 31.12.2016 PLN'000
Provisions for Carry Fee*	11 902	14 553
Provisions for audit of financial statements	273	211
Fundraising fee**	408	218
Other provisions***	720	181
	13 303	**15 163**
Non-current part:	11 902	14 553
Current part:	1 401	610
	13 303	**15 163**

***** Provisions for costs of remuneration on disinvestment and on investment value increase. More information in **Note no. 18 *„Employee benefits"***.
******Provision for costs of remuneration for raising funds for future investments.
***Other provisions as at 31 December 2017 consisted mainly of provision for bonus for President of the Management Board – Tomasz Czechowicz in the amount of PLN 500 thousand.

Provision breakdown	Value as at 01.01.2017 PLN'000	Increase in provisions PLN'000	Release of provisions PLN'000	Use of provisions PLN'000	Value as at 31.12.2017 PLN'000
Provision for remuneration on disinvestment	14 553	-	2 651	-	11 902
Provision for costs of audit of Financial Statements	211	273	211		273
Fundraising fee	218	408	11	207	408
Other provisions	181	719	142	38	720
Total provision	**15 163**	**1 400**	**3 015**	**245**	**13 303**

15. Liabilities on bills of exchange

The Company manages financial liquidity using short term financial instruments – bills of exchange.

As at 31.12.2017 the Group had liabilities on bills of exchange to the following companies:

	Maturity date	Interest rate (fixed) %	Nominal value PLN'000	Interest accrued value PLN'000	Total PLN'000
LoanVentures Sp. z o.o.*	2018-09-29	4,79%	7 500	443	7 943
MCI VentureProjects Sp. z o.o. VI SKA**	2018-11-02	4,80%	3 500	191	3 691
MCI VentureProjects Sp. z o.o. VI SKA**	2018-12-01	4,79%	2 096	8	2 104
			13 096	**642**	**13 738**

*Portfolio company of MCI CreditVentures FIZ 2.0.
**Portfolio company of MCI.EuroVentures 1.0 Sub-fund separated within MCI.PrivateVentures FIZ.

As at 31.12.2016 the Group had liabilities on bills of exchange to the following companies:

	Maturity date	Interest rate (fixed) %	Nominal value PLN'000	Interest accrued value PLN'000	Total PLN'000
LoanVentures Sp. z o.o.*	2017-09-28	4,79%	7 500	90	7 590
MCI Capital SA	2017-10-23	4,79%	500	4	504
MCI Capital SA	2017-10-19	4,79%	500	5	505
MCI VentureProjects Sp. z o.o. VI SKA**	2017-11-01	4,80%	3 500	27	3 527
MCI VentureProjects Sp. z o.o. VI SKA**	2017-12-02	4,79%	2 000	7	2 007
			14 000	**133**	**14 133**

*Portfolio company of MCI CreditVentures FIZ 2.0.
**Portfolio company of MCI.EuroVentures 1.0 Sub-fund separated within MCI.PrivateVentures FIZ.

16. Bank loans

Bank loans as at 31.12.2017

Lender	Type of financing	Repayment date	Interest rate	Amount of liability
			%	PLN'000
ING Bank Śląski S.A.	Term loan	30.12.2022	WIBOR 3M + 2,8 p.p.	25 006
ING Bank Śląski S.A.	Overdraft	26.07.2018	WIBOR 1M + 1 p.p.	4 676
				29 682
			Including:	
			Non-current part:	24 000
			Current part:	5 682
				29 682

Bank loans as at 31.12.2016

As at 31.12.2016 the Group did not have any bank loans.

17. Share based incentive programmes

Management stock option agreement for President of the Management Board – Tomasz Czechowicz

Under management stock option agreement concluded on 23 March 2017 between the Company and Tomasz Czechowicz (hereinafter "TC" or "party"), the Company is obligated to enable TC taking up to 273.900 new shares in PEM's share capital, which would represent 8% of the general number of votes on the General Meeting of PEM existing as of the day of signing the agreement, in the period from 1 April 2017 to 1 January 2022 in exchange for a cash contribution. Content of the agreement was approved by the Supervisory Board of PEM on 16 March 2017.

As part of the agreement, parties decided to dissolve management stock option agreement concluded on 26 June 2015.

Issue price of shares overtaken by the execution of subscription warrants amounts to 57,61 PLN per share. The programme has been divided into four even tranches of management shares, 68.475 shares each, falls on 2017, 2018, 2019 and 2020 respectively. Acquisition of rights to management shares of each tranche will take place on 1 April 2017, 1 January 2018, 1 January 2019 and 1 January 2020 respectively. Period for execution rights from warrants lasts 2 years for tranches no. 2, 3 and 4, for tranche no. 1 expires on 1 January 2019.

The execution of subscription warrants by parties is dependent on meeting certain conditions defined in the management stock option agreements. The first condition is applying a formal declaration on execution rights from subscription warrants for the annual tranche with indicating number of subscription warrants that are executed; the second condition is that there may be no Bad Leaver case, which takes place when dissolving managerial agreement with PEM with immediate effect.

Cost of management stock option programme in 2017 amounted to PLN 2.027 thousand.

Management stock option agreement for members of the Management Board

On 2 October 2017, the Supervisory Board of PEM conducted a resolution on approving incentive programme for two members of the Management Board of the Company. Members of the Management Board participate in the incentive programme through right to acquire B3 series subscription warrants, entitling to exchange warrants for shares of the Company. Within the incentive programme, the Company will propose to members of the Management Board 10.272 shares. Issue price of shares acquired through execution of subscription warrants amounts to 57,61 PLN per share. The Company will propose acquisition of subscription warrants until 30 June 2018. Subscription warrants will expire on 31 December 2022.

The Company will propose acquisition of subscription warrants upon meeting all following conditions: (1) cooperation with the Company throughout the entire lifetime of the incentive programme, (2) realization of individual targets on at least 75% throughout the entire lifetime of the incentive programme.

The execution of subscription warrants by parties is dependent on meeting following conditions: the first condition is applying a formal declaration on execution rights from subscription warrants for the annual tranche with indicating number of subscription warrants that are executed; the second condition is that there may be no Bad Leaver case, which takes place when dissolving managerial agreement with PEM with immediate effect.

Cost of incentive programme in 2017 amounted to PLN 47 thousand.

18. Employee benefits

The following employee benefit sums are recognised in the statement of comprehensive income:

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	**For the period: from 01.01.2016 to 31.12.2016 PLN'000**
Fixed remuneration*	8 233	6 242
Variable remuneration**	29	3 073
Social insurance	220	197
Share options granted to Members of the Management of Supervisory Boards***	4 151	1 300
Other employee benefits	144	147
	12 777	**10 959**

*Increase in fixed remuneration stems from increase in number of employees in PEM AM, as well as from increase in global remuneration level.
**Decrease in variable remuneration in 2017 is a result of lower Carry Fee in 2017 in comparison to significant costs of Carry Fee in 2016 related to deinvestment from Wirtualna Polska and Invia, as well as from setting up a provision for Carry Fee related to investment in other portfolio companies (total cost of Carry Fee on deinvestment in Invia and Wirtualna Polska and set up of provisions for Carry Fee in 2016 amounted to PLN 3,5 million).
***Increase in costs of incentive programme in 2017 in comparison to previous year is due to conversion of Carry Fee for deinvestment in Wirtualna Polska in the amount of PLN 2.038 thousand into management options, as well as new incentive programme for President of the Management Board in the amount of PLN 2.027 thousand and other members of the Management Board in the amount PLN 47 thousand.

Remuneration for key personnel of the parent entity

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	**For the period: from 01.01.2016 to 31.12.2016 PLN'000**
Management Board		
Fixed remuneration	1 297	1 337
Variable remuneration *	(652)	6 967
Other benefits	-	-
Incentive programme **	4 113	988
	4 758	**9 292**
Supervisory Board		
Remuneration related to Meetings of Supervisory Board	303	65
Incentive programme	-	149
	303	**214**

*In connection with decision on granting share based incentive programme to the President of the Management Board for exit from Wirtualna Polska and due remuneration (Carry Fee), provision for Carry Fee set up in 2016 was dissolved in the first quarter of 2017, in its place cost of incentive programme was included in the amount of PLN 2.038 thousand, which had an impact on decreasing variable remuneration and increasing cost of incentive programme in 2017. Moreover, in 2017 costs of bonus for President of the Management Board in the amount of PLN 623 thousand were included into variable remuneration, as well as Carry Fee remuneration for recapitalization in NaviExpert and partial exit from Indeks Bilgisayar in total amount of PLN 811 thousand. In comparative period, variable remuneration consisted of Carry Fee from deinvestment from Wirtualna Polska and Invia, which amounted to PLN 6.637 thousand altogether and of Fundraising Fee in the amount of PLN 329 thousand.

**Increase in costs of incentive programme in 2017 in comparison to previous year resulting from including costs of Carry Fee for Wirtualna Polska (in connection with the Carry fee variable remuneration conversion) in the amount of PLN 2.038 thousand into costs of incentive programme for President of the Management Board in the amount of PLN 2.027 thousand and other members of the Management Board in the amount of PLN 47 thousand.

Employment / execution of function in the parent entity

	Balance as at 31.12.2017 Number of employees	Balance as at 31.12.2016 Number of employees
Management Board	4	3
Supervisory Board	6	7
Operational staff	5	3
	15	**13**

Borrowings granted to members of the Management Board

The Group did not grant borrowings to Management Board Members in 2017 and 2016.

Advances paid to members of the Management Board

The Group did not pay advances to Management Board Members in 2017 and 2016.

19. Dividend

On 29 June 2017 Ordinary General Shareholders Meeting of Private Equity Managers S.A. has taken a resolution on dividing profit of the Company generated in 2016. Ordinary General Meeting, as recommended by the Management Board, has divided net profit of the Company for 2016 in the amount of PLN 10.919.035,88 in the following way:

- PLN 10.031.643,17 – dividend for shareholders;
- PLN 887.392,71 – reserve capital of the Company.

Total number of shares in the share capital of the Company, for which dividend will be paid, accounts for 3.423.769 shares.

Ordinary General Shareholders Meeting of the Company has set the dividend day on 8 September 2017 and dividend payment day on 16 November 2017.

Dividend planned for 2017

The Company’s aim is to ensure that every shareholder participates in profit generated by the Company by annually paid dividends, which are dependent on investment plans of the Company, existing liabilities and assessments of the Company’s outlook in particular macroeconomic conditions made by the Management and the Supervisory Board of the Company after obtaining consent from the General Shareholders Meeting.

Management Board of the Company will recommend to pay dividend for 2017 year at level not lower than PLN 10 million.

20. Financial instruments

Items in the financial statements	Measurement method	Balance as at 31.12.2017 PLN'000	Restated Balance as at 31.12.2016 PLN'000
Trade and other receivables	Measured at amortised cost	15 375	11 120
Liabilities on bonds	Measured at amortised cost	-	22 966
Trade and other payables	Measured at amortised cost	9 720	10 958
Loans	Measured at amortised cost	29 682	13
Bills of exchange	Measured at amortised cost	13 738	14 133

Fair value is an amount for which an asset component could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction, other than a forced sales or liquidation and is best reflected by a market price if such is available.

The Group holds instruments which are not measured at fair value in the statement of financial position. These instruments include cash and cash equivalents, trade and other and financial receivables and payables, of which on bills of exchange and bonds. The Group assumes that for the financial instruments mentioned, which are not measured at fair value on the statement of financial position, their fair value is close to their carrying value.

21. Contingent liabilities and assets

As of the day of preparation these financial statements, the Group did not have contingent assets or liabilities.

22. Litigation and administrative proceedings

There are no litigation or administrative proceedings pending against the Company.

23. Remuneration paid to auditor of Financial Statements (gross)

	For the period: from 01.01.2017 to 31.12.2017 PLN'000	For the period: from 01.01.2016 to 31.12.2016 PLN'000
Audit of annual financial statements	306	293
Review of half-year financial statements	102	107
Other services	146	99
	554	**499**

24. Subsequent events

Taking of control over MCI Capital TFI S.A. by Tomasz Czechowicz approved by the PFSA

On 19 October 2017, notification of the intention to become indirect parent entity in MCI Capital TFI S.A. was submitted to Polish Financial Supervisory Authority (the PFSA) on behalf of Tomasz Czechowicz (the Notifier). After consideration of the entire supplied evidence, the PFSA on 13 March 2018 claimed no grounds to object in the case. Notified intention will be realised by acquiring status of parent entity in PEM (direct parent company of MCI Capital TFI S.A.) by execution of Management stock option programme of 23 March 2017 concluded with PEM or by purchase of PEM shares by MCI Management Sp. z o.o. or MCI Capital S.A. in the number sufficient to obtain status of parent entity of PEM. As a result of activities described above, the number of shares held by the Notifier (directly and indirectly) will provide the Notifier with majority of votes on the general shareholders meeting of PEM, consequently, also with status of indirect parent entity of MCI Capital TFI S.A. Date of taking control over MCI Capital TFI S.A. was set on 6 months after the decision of the PFSA.

Purchase of own shares

The Company has been implementing the purchase of own shares since 9 November 2017. According to the resolution of the Management Board of the Company, not more than 125.000 shares may be subject to purchase by the Company. Since the beginning of the purchase until the date of preparation of present financial statements 3.269 shares accounting for 0,095% of share capital of the Company entitling 3.269 votes on General Shareholders Meeting of the Company have been purchased for PLN 137 thousand. Legal basis for purchase of shares is the Purchase Program approved by the resolution of Management Board on 8 November 2017, based on the resolution no. 6/NWZ/2017 of the Extraordinary General Shareholders Meeting of Private Equity Managers S.A. of 9 January 2017 on authorization the Company to purchase own shares and establish reserve capital, as well as on the resolution no. 22/ZWZ/2017 of the Ordinary General Shareholders Meeting of Private Equity Managers S.A. of 29 June 2017 on changing resolution no. 6 of Extraordinary General Shareholders Meeting of 9 January 2017 on authorization the Company to purchase own shares and establish reserve capital.

PEMSA Holding Limited and MCI Ventures Sp. z o.o. merger plan

On 12 March 2018, Management Board of MCI Ventures Sp. z o.o. has taken resolution on cross-border merger with PEMSA Holding Limited in the way described in article no 5161 in accordance with article no 492 paragraph 1 point 1 of the Commercial Code and with provisions of articles 201I-201X of the Commercial Code in Cyprus, chapter 113, implementing the provisions of Directive of the European Parliament and Council 2005/56/WE of 26 October 2005 on cross-border mergers of capital companies, based on common cross-border merger plan approved by the acquiring company and the company being acquired on 31 October 2017. MCI Ventures Sp. z o.o. is acquiring company, whilst PEMSA Holding Limited is being acquired. The Company expects analogous resolution to be taken by PEMSA Holding Limited. PEM SA will hold 100% share in the company formed from the merger.

Appointment of the Vice-president of the Supervisory Board of MCI Capital TFI S.A.

On 16 March 2018 Mr Wojciech Kryński has been appointed for Vice-president of the Supervisory Board of MCI Capital TFI S.A.

Establishment of the Audit Committee of the Supervisory Board of MCI Capital TFI S.A.

On 16 March 2018, the Supervisory Board of MCI Capital TFI S.A. has taken a resolution on establishing the Audit Committee. All members of the Supervisory Board have been appointed to the Audit Committee.

25. Operating segments

There are no separate operating or geographical segments in the Group. The Capital Group PEM constitutes a separate and exclusive operating segment as a whole - **investment funds management.** It includes assets and liabilities related to external operations of providing management services for the benefit of investment funds (particularly funds of the private equity, venture capital and mezzanine debt type).

26. Related entities

Entities constituting the Capital Group

The composition of the Capital Group Private Equity Managers S.A. as at 31 December 2017 is presented in **Selected Disclosures**.

Transactions with related entities as at 31 December 2017

	Major investor	Other related entities*	Total
Receivables:			
Trade receivables	-	6	**6**
Liabilities:			
Trade payables	-	3 639	**3 639**
Liabilities due to bills of exchange	-	-	**-**

Revenues and expenses:			
Base business expenses	-	(1 018)	**(1 018)**
Operating expenses	-	(1 281)	**(1 281)**
Financial costs	-	(24)	**(24)**

*As other related entities the Group classifies the following companies: MCI Capital S.A., MCI Fund Management Sp. z o.o. and MCI Fund Management Sp. z o.o. sp.j.

Transactions with related entities as at 31 December 2016

	Major investor	Other related entities*	Total
Receivables:			
Trade receivables	1	2	**3**
Liabilities:			
Trade payables	-	1 908	**1 908**
Liabilities due to bills of exchange	-	1 009	**1 009**
Revenues and expenses:			
Operating expenses	-	(620)	**(620)**
Financial costs	-	(9)	**(9)**

*As other related entities the Group classifies the following companies: MCI Capital S.A., MCI Fund Management Sp. z o.o. and MCI Fund Management Sp. z o.o. sp.j.

Transactions with the Management and Supervisory Boards

Management Board

Transactions with members of the Management Board are presented in **Note No. 17 "Share based incentives"**.

Supervisory Board

Members of the Supervisory Board of the companies comprising the Group, were not parties of transactions with companies from the Group in 2017, other than receiving remuneration.

Members of Management of PEM SA, as at 31 December 2017, holding a position in subsidiaries

Subsidiaries/Board Members same as in PEM	**Members of Management Board**			
	Tomasz Czechowicz	**Ewa Ogryczak**	**Krzysztof Konopiński**	**Paweł Kapica**
MCI Capital Towarzystwo Funduszy Inwestycyjnych S.A.	yes	yes	yes	no
PEM Asset Management Sp. z o.o.	yes	yes	yes	no
PEMSA Holding Limited	no	no	no	no
MCI Asset Management Spółka z ograniczoną odpowiedzialnością Spółka Jawna*	no	no	no	no
MCI Asset Management Spółka z ograniczoną odpowiedzialnością	no	yes	yes	no
MCI Asset Management Spółka z ograniczoną odpowiedzialnością II S.K.A w likwidacji**	no	no	no	no
MCI Asset Management Spółka z ograniczoną odpowiedzialnością IV S.K.A. w likwidacji**	no	no	no	no
MCI Asset Management Spółka z ograniczoną odpowiedzialnością V S.K.A**	no	no	no	no
MCI Ventures Sp. z o.o.	no	yes	no	no
Helix Ventures Asset Management Sp. z o.o.	no	no	no	no

*Managing Partner of the company is MCI Asset Management Sp. z o.o.
**General Partner of the company is MCI Asset Management Sp. z o.o.

As of the day of preparation of these financial statements, Vice-President of the Supervisory Board of PEM at the same time was the President of the Supervisory Board of MCI Capital TFI S.A. and member of the Audit Committee of the Supervisory Board of MCI Capital TFI S.A. Other members of the Supervisory Board of PEM had no function in Supervisory Boards of subsidiaries.

27. Description of material accounting policies

Material accounting policies applied while preparing these consolidated Financial Statements have been presented below, except for change in comparative data described on page 9.

Comparative data

Accounting policies - identical to these adopted to present information as at the date and for the period of 12 months ended on 31 December 2017 - have been applied to the comparative data presented in the consolidated Financial Statements.

Continuation as going concern

The company's Financial Statements have been prepared on the assumptions that the company shall continue its operations in the foreseeable future comprising a period not shorter than 12 months after the reporting date, i.e. 31 December 2017. As at the Financial Statement's date the Company's Management Board do not state the existence of any facts and circumstances which would indicate threats to the company's continuation as going concern within 12 months after the reporting date as a result of intentional or forced neglect or material limitation of the company's hitherto activities.

Foreign currencies

As at the end of the reporting period all items of assets and equity and liabilities presented in foreign currencies are converted according to an average rate determined by the National Bank of Poland as at that date. Profits and losses which arose on currency conversion are recognised directly in the income statement, except for when they arose on measurement of non-financial assets and liabilities whose changes of fair value are directly recognised in equity.

Income and costs

Income and costs are recognised on an accrual basis, i.e. in the reporting period which they relate to, regardless of the day of receipt or making payment.

Revenue from management

Revenue is recognised at fair value of remuneration received or receivable. Fees for investment funds management, handling fees and other income are recognised on an accrual basis in the period which they relate to. Management fees are determined in funds' statutes and defined as a percentage of funds' net asset value.

Base business and general administration costs

Base business and general administration costs for a reporting period are disclosed on a day when they are incurred.

Base business costs are costs which directly relate to income for the year. Base business costs include i.a.:
- distribution costs incurred when selling investment certificates,
- above-the-limit costs of funds covered by TFI, in line with statutes of funds,
- costs related to auxiliary activities in relation to records of funds' participants kept by TFI.

General administration costs relate to maintenance of companies and securing their orderly functioning. General administration costs include i.a.:
- employee remuneration and benefits and social security costs (this relates to staff employed in CG PEM under a contract of employment, contract of mandate or contract of specific work),

- costs of bought-in services are costs of remuneration for staff who cooperate with companies in CG PEM who are not employed under a contract of employment, a contract of mandate or a contract of specific work, costs of advisory and legal services, accounting costs, costs of marketing, audits, rental, IT services, etc.,
- depreciation of fixed and intangible assets,
- use of energy and materials,
- taxes and charges,
- other costs.

Employee benefits

Amounts of short-term employee benefits other than on account of employment termination and compensation benefits are recognised as liabilities, after acknowledging all amounts which have already been paid, and at the same time they are disclosed as costs of the period (in costs of remuneration), unless the benefit shall be recognised as original costs of the asset component.

Remuneration for disinvestment (Carry fee)

Remuneration for disinvestment is calculated based on parameters of a real purchase proposition of a given company (partial or complete disinvestment) and it cannot exceed 5% of net profit from a given investment calculated as a difference between revenue from sales of shares (sale price) as well as other revenue from investment obtained during the investment lifetime and costs incurred for a given investment, and connected to a particular portfolio company, increased by 10%, i.e. expected rate of return on investment (hurdle rate) per annum in the period from the moment the cost was incurred to the moment of receiving revenue from the sale of shares according to agreement entered into with investment manager and remuneration policy which is binding in the Company.

The Company creates provisions for variable remuneration (Carry Fee). Provisions are calculated based o available parameters which provide the best estimate of the hypothetical expected net profit for a given investment as at the balance sheet date. The hypothetical expected net profit is calculated as difference between fair value of investment as at the balance sheet date, received profit on investment till the balance sheet date (i.e. dividends) and expenses incurred on particular investment and connected to this investment, increased by 10% i.e. the expected rate of return on investment (hurdle rate) per annum in the period from the time the expenditure was incurred to the balance sheet date. Provision for remuneration for disinvestment is created in the amount of 5% of hypothetical net profit for a given investment. The first trigger for creating provision for remuneration for disinvestment, obligatory event, is the first moment when fair value of particular investment increases by more than expenditure increased by 10%, i.e. the expected rate of return on investment (hurdle rate) resulting in creating net profit calculated as stated above. Provision for variable remuneration is updated quarterly based on a quarterly fair value update of investment in portfolio company. Provision is created/updated for all companies in portfolio of managed funds and then is aggregated and presented as increase or decrease of period cost. When a realistic buy offer of a particular investment in a portfolio company is received, the Company unwinds provision concerning this investment in portfolio company and books final liability resulting from remuneration for disinvestment.

According to Capital Group PEM policy, provision for variable remuneration Carry fee is created in managing company, i.e. PEM Asset Management Sp. z o.o., where individuals responsible for investment management are employed. In case of full or partial disinvestment from particular investment the general provision is converted into individual provision, i.e. allocated to particular individuals responsible for investment management. (if disinvestment is certain but not all parameters from the buy offer are known) or liability resulting from variable remuneration Carry fee (if all parameters from the buy offer are known). For individuals responsible for investment management employed in PEM provision/liability for variable remuneration Carry fee is booked for these individuals in PEM. Then, general provision (without allocation on particular managers) is unwound in managing company and a provision/liability in PEM is booked. The way of provision/liability calculation does not change.

Remuneration for raising funds for future investments (Fundraising fee)

Remuneration for raising funds for future investments relates to:
- obtaining debt financing to finance investments,
- placing the issue of investment certificates of funds managed by CG PEM,
- placing the issue of PEM's shares.

Provisions for the remuneration mentioned above are created in the month following the month in which one of the events defined above took place.

Share-based payments

Employee benefits include shares, share options and other equity instruments issued by a company, which meet the criteria of IFRS 2 related to the equity-settled programme. Measurement at fair value of the programme is performed for each programme participant with the acknowledgement of the period of obtaining entitlements, at the moment when the entitlement is granted and is recognised as cost of remuneration in the income statement and in the equity under Other reserve capital.

Share based payments between entities from the Capital Group

Capital Group PEM, operates a share-based remuneration system in form of parent entity shares for the management of its subsidiaries. The parent entity is obliged to settle transactions, i.e. Issue of PEM shares or subscription warrants entitling them to take up PEM shares (this is not the responsibility of the subsidiaries). Taking into account the settlement system, share payment is treated as transaction settled in equity instruments according to IFRS 2 ”Share-based payment”. The costs incurred in this regard are recognized by the subsidiary in which the employed manager received remuneration in PEM shares or warrants entitling to acquire PEM shares.

Income tax

The obligatory charges to profit include current tax and deferred tax. Current tax is calculated on tax profit/loss (tax base) for a given reporting period. Tax profit/ loss differs from net accounting profit/ loss due to exclusion of taxable income and tax-deductible costs in the following years and the items of costs and income which will never be taxable. Taxes are calculated based on tax rates applicable in a given reporting period.

Deferred tax is calculated using the balance sheet method as tax to be paid or reimbursed in the future on differences between the carrying values of assets and liabilities and the respective tax values applied to calculate the taxable amount.

Deferred tax provision is established on all positive temporary differences subject to taxation, whereas a component of deferred tax assets is recognised up to the amount in which it is likely to reduce future tax profits by recognised negative temporary differences.

No deferred tax asset or liability is recognised when a temporary difference relates to goodwill or to the initial recognition of another asset or liability in a transaction which affects neither taxable income nor accounting profit.

The value of the deferred tax component is subject to an analysis as at each reporting date and in the case when the expected future tax income is insufficient to realise the component of assets or part thereof, it is written off.

Deferred tax is calculated with tax rates which are expected to apply when temporary differences reverse. Deferred tax is recognised in the statement of comprehensive income, except for when it relates to items directly recognised in the equity. In the latter case, deferred tax is also charged directly to equity.

Due to creation of PGK during the tenor of the PGK, the companies forming it are obliged to maintain each year tax profitability ratio of at least 3% (profit of revenues ratio).

Losses generated by companies before PGK are not subject to expiration. For this reason, PEM will be entitled to settle tax losses for the next five consecutive fiscal years, with the PGK period not being taken into account when calculating successive tax years in succession.

Financial liabilities and assets

Financial liabilities and assets are recognised when the Group becomes party to a binding agreement.

The Group classifies financial instruments to the following categories: components of financial assets or financial liabilities measured at fair value through profit/ loss, investments held to maturity, borrowings and receivables, financial assets available for sales.

Financial assets are disclosed in the following items:
- receivables on bonds,
- borrowings granted,
- cash and cash equivalents,
- trade and other receivables.
-

Financial liabilities are disclosed in the following items:
- bank loans and borrowings,
- payables on bonds,
- payables on bills of exchange,
- trade and other payables.

At initial recognition, financial assets and liabilities are measured at fair value; for components of financial assets or liabilities other than measured at fair value through profit or loss the fair value is increased by transaction costs which may be directly attributable to the acquisition or issue of the financial asset or the financial liability.

In the case of receivables on bonds and borrowings granted, financial assets after initial recognition are measured at amortised costs using the effective interest rate method; in the case of trade receivables the measurement is performed at amount due less impairment write-offs.

In the case of bank loans and borrowing and liabilities on bonds and on bills of exchange, financial liabilities after initial recognition are measured at amortised cost using the effective interest rate method; in the case of trade and other payables - at amount due.

Finance income and costs

Finance income and costs include interest generated by a component of financial assets or financial liabilities and are recognised on an accrual basis, i.e. in the reporting period which they relate to.

Impairment of financial assets

At each balance sheet date, the Group assesses if there are objective premises for impairment of a financial asset or a group of financial assets.

In the case of financial assets measured at amortised cost - if there are objective premises that impairment loss took place, the amount of the impairment write-off equals the difference between the carrying value of a financial asset and current value of estimated future cash flows (excluding future losses on not collecting receivables which have yet not been incurred), discounted using the original effective interest rate (i.e. interest rate determined at initial recognition). The amount of impairment is recognised in the income statement.

The Group assesses if there are objective (material and immaterial) premises for impairment of financial assets. Objective evidence of impairment of a financial asset or a group of financial assets includes information related to the following events:
- significant financial difficulties of issuer or debtor,
- failing to meet terms and conditions of an agreement,
- lender granting borrower certain facilities due to borrower's financial difficulties,
- high probability of borrower's bankruptcy or other financial restructuring,
- disappearance of an active market for a given financial asset due to financial difficulties.

If the analysis reveals that there are no objective premises for impairment of individually assessed financial asset, regardless of its significance, the Group includes this asset to a group of assets of a similar characteristics of credit risk and performs a joint assessment for impairment. Assets which are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the joint assessment for impairment of the group of assets. If in the following period the impairment write-off decreases and this decrease can objectively relate to an event taking place after the recognition of impairment, the previously recognised impairment loss is reversed. The reversal is recognised in the income statement in an amount in which the carrying value of an asset does not exceed its amortised cost/ recoverable amount as at the reversal date.

Cash and cash equivalents

Cash and its equivalents disclosed in the statement of financial position include cash at bank and in hand as well as short-term deposits with an original maturity period up to three months.

Provisions for liabilities

Provisions for liabilities are established when the Group is under present obligation (legal or customary) resulting from past events and it is probable that meeting this obligation will cause a reduction of the company's economic benefits and that one may reliably estimate the liability amount. If the Group expects that costs covered with the provision are to be returned, e.g. under an insurance agreement, then this return is recognised as a separate asset, but only when it is virtually certain that this return will actually take place. Costs of a provision are recognised in the income statement less any returns. Provisions for future operating losses are not established.

Consolidation

Subsidiaries

Subsidiaries are all entities in which investments were made and which are controlled by the Company. In line with IFRS 10 a Company controls a subsidiary in which an investment was made if and only if it simultaneously:

- exercises authority over a subsidiary in which an investment was made;
- is subject to exposure to variable profit/ loss or is entitled to variable profit/ loss due to its engagement in the subsidiary in which an investment was made,
- can use the possibility to exercise authority over a subsidiary in which an investment was made to affect its profit/loss.

Goodwill

Goodwill arising on the acquisition of an entity is originally recognised at acquisition price which is a surplus of:

- consideration transferred,
- amount of all non-controlling (minority) shares in the acquired entity, and
- in the case of a merger of entities carried out in stages - fair value as at the acquisition date of the acquired entity over the net amount determined as at the acquisition date of identifiable acquired assets and liabilities.

As at the asset acquisition date, liabilities of the acquired entity are measured at fair value. Excess of acquisition price above the share of the acquiring entity at fair value of identifiable acquired net assets of the acquired entity is recognised as goodwill. If the purchase price is lower than fair value of identifiable acquired net assets the difference is recognised as profit in the statement of comprehensive income for the period in which the acquisition took place. Minority shares are recognised in a relevant proportion of assets and equity fair value. Losses attributable to minority shareholders above the value of their shares reduce equity of the parent company in the following periods. At initial recognition, the goodwill is disclosed at acquisition price less any accumulated impairment losses.

Impairment – "goodwill”

Impairment of a non-financial asset is identified when the book value is higher than recoverable amount. Recoverable amount corresponds to fair value less costs of sales and value-in-use, whichever is higher.

Determining the value-in-use relates to estimates of future cash flows expected from continued use or disposal of an asset and to discounting these values. These principles are also applied to tests for impairment of goodwill which are carried out on an annual basis. A detailed description of principles applied to tests for impairment of goodwill was presented in **Note No. 7 "Goodwill”**.

Changes in IFRS

Standards, Interpretations and amendments to published Standards as adopted by the EU that are not yet effective for annual periods ending on 31 December 2017:

Standards and Interpretations adopted by EU	Nature of impending change in accounting policy
IFRS 15 Revenue from Contracts with Customers **and** **Clarifications to IFRS 15 Revenue from Contracts with Customers**	The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised: • over time, in a manner that depicts the entity's performance; or • at a point in time, when control of the goods or services is transferred to the customer. IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard. The amendments clarify how to: • identify a performance obligation - the promise to transfer a good or a service to a customer- in a contract; • determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and • determine whether the revenue from granting a license should be recognised at a point in time or over time. The amendments also provide entities with two additional practical expedients: • An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only); • For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).
IFRS 9 Financial Instruments (2014)	This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting until the standard resulting from the IASB's project in macro hedge accounting is effective. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. A financial asset is measured at amortized cost if the following two conditions are met: • the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and • its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. Otherwise, e.g. in the case of equity instruments of other entities, a financial asset will be measured at fair value. Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, other than assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets – such remeasurement gains and losses are recognized in OCI. In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances. For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition. The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking an 'expected credit loss' (ECL) model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets. Under IFRS 9, loss allowances will be measured on either of the following bases: • 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and • Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required. The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items. Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

Standards and Interpretations adopted by EU	Nature of impending change in accounting policy
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	The amendments address concerns arising from implementing IFRS 9 before implementing the replacement standard that the IASB is developing for IFRS 4. The amendments introduce two optional solutions. One solution is a temporary exemption from IFRS 9, effectively deferring its application for some insurers. The other is an overlay approach to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.
Annual Improvements to IFRS 2014-2016 Cycle	The Improvements to IFRSs (2014-2016) contains 3 amendments to standards. The main changes were to: • delete short-term exemptions for first-time adopters (IFRS 1 First-time Adoption of International Financial Reporting Standards) relating, inter alia, to transition provisions of IFRS 7 Financial Instruments - Disclosures regarding comparative disclosures and transfers of financial assets, and of IAS 19 Employee Benefits; The exemptions were deleted due to the fact that these reliefs had been available to entities only for reporting periods that had passed; • clarify that requirements of IFRS 12 Disclosure of Interest in Other Entities (with an exception of disclosure of summarized financial information in accordance with paragraphs B10-B16 of that standard) apply to entities that have an interest in subsidiaries, or joint arrangements, or associates, or unconsolidated structured entities, which are classified as held for sale or discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; and • clarify that election of exemption from applying the equity method per IAS 28 Investments in Associates and Joint Ventures shall be made separately for each associate or joint venture at initial recognition of the associate or joint venture..

Standards and interpretations not yet endorsed by the EU as at 31 December 2017:

Standards and Interpretations awaiting to be adopted by EU	Nature of impending change in accounting policy
IFRIC 22 Foreign Currency Transactions and Advance Consideration	IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance and clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.
IFRIC 23 Uncertainty over Income Tax Treatments	IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	The amendments clarify share-based payment accounting on the following areas: • the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; • share-based payment transactions with a net settlement feature for withholding tax obligations; and • a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.
Amendments to IFRS 9: Financial Instruments	These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	The Amendments clarifies that companies account for investments in associates or joint ventures, for which equity method is not applied, in accordance with provisions of IFRS 9 Financial Instruments.
Amendments to IAS 19: Employee Benefits	The Amendments require that the Entity uses current and updated assumptions when a change to a plan, and amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan
Annual Improvements to IFRS 2015-2017 Cycle	The Improvements to IFRSs (2015-2017) contains four amendments to standards. The main changes were to: • clarify that the entity remeasures its previously held interest in a joint operation when it obtains control of the business in accordance with IFRS 3 Business Combinations; • clarify that the entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation in accordance with IFRS 11 Joint Arrangements; • clarify that the entity should always accounts for income tax consequences of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized past transactions or events that generated distributable profits; and • clarify that the entity should exclude from the funds that the entity borrows generally borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete as borrowings made specifically for the purpose of obtaining a qualifying asset should not apply to a borrowing originally made specifically to obtain a qualifying asset if that asset is ready for its intended use or sale.

Impact of new standards on the financial statements

IFRS 9 *Financial instruments*

IFRS 9 *Financial instruments* is effective for all financial statements for periods beginning on or after 1 January 2018.

In accordance with IFRS 9, financial assets as of initial recognition are classified to the following categories:
1. Financial assets measured at amortised cost,
2. Financial assets measured at fair value through other comprehensive income,
3. Financial assets measured at fair value through profit or loss.

Classification is made upon initial recognition and dependent on model of management of financial assets adopted by the company, as well as on characteristics on cash flows from these instruments.

IFRS 9 replaces existing impairment model described in IAS 39 as model of "incurred loss" with new model based on "expected credit loss". Consequence of this change is the requirement to calculate impairment allowances based on expected credit losses concerning forecast and expected macroeconomic conditions while assessing risk.

In accordance with IFRS 9 financial assets are classified into following categories:

- Basket 1 – exposures with no impairment, for which 12-months expected loss is estimated;
- Basket 2 – exposures with significant increase in risk since the moment of initial recognition, but for which no impairment has been identified as of the reporting day. For these exposures expected credit loss is estimated for the lifetime of the exposure;
- Basket 3 – impaired exposures.

In order to monitor and identify significant increase in credit risk, the company is applying following qualitative criteria:

- Delay in repayment over 30 days, unless the Company has rational and possible to proof information that are available with no excess cost or efforts, which indicate that the credit risk did not increase significantly since initial recognition, despite payments are more than 30 days overdue;
- Forbearance, which is extension of the repayment date or dividing payment due into instalments except for cases, where extension of repayment date or dividing payment due into instalments is the tool of managing liquidity and concern transactions with related parties, investment funds managed by MCI Capital TFI S.A. and portfolio companies of these funds, and the Group has full control over it;
- Events associated with increase in risk, so called "soft evidence" of impairment, identified as part of analysis of relationship with contractor.

As part of conducted analysis, following main categories of assets has been identified, for which potential correction resulting from applying expected credit loss model required by IFRS maybe necessary:

- Trade and other receivables.

Main component of the abovementioned position are receivables from investment funds from management fee, which as of 31 December 2017 amounted to PLN 14 758 thousand, which is 95,98% entire trade receivables. The Group has assessed potential impairment allowances based on analysis of receivables which each contractor. Based on analysis, the Company did not identify receivables overdue more than 30 days, as well as did not identify forbearance granted. The Company did not identify significant increase in credit risk based on "soft evidence" of impairment that could have influence the ability of contractors to settle their liabilities to the Company.

According to estimates of the Management Board, correction due to expected credit loss will not be significant.

IFRS 15 *Revenue from contracts with customers*

IFRS 15 *Revenue from contracts with customers* is effective for all financial statements for periods beginning on or after 1 January 2018.

Changes implemented by IFRS 15 concern all agreements that lead to recognize revenue. Fundamental principle of new standard is recognizing all revenues in the moment of transfer of control over goods or services for the client, in the amount of transaction price. All goods or services sold in packages, which may be extracted from the package, should be recognized separately, moreover all discounts concerning the transaction price should have been allocated to particular components of the package. In case, when the amount of revenue is variable, according to new standard, variable amounts are classified to revenue, if there is high probability that in the future there will be no reverse of recognized revenue as a result of revaluation.

Depending on meeting particular criteria, revenues connected with separated provisions are:
- Settled over time in the manner described in the agreement, or
- Recognized as single shot in the moment when control over goods or services is transferred for the client.

Moreover, in according with IFRS 15, costs incurred in order to acquire and secure contract with customer, should have been activated and settled over time of consuming benefits from this contract.

As part of conducted analysis, following categories of revenues that should have been recognized in accordance with IFRS 15 have been identified:
- Management fee.

The Group has conducted detailed analysis of impact of IFRS 15 on hitherto method of revenue recognition, in particular of management fee, for which way of calculation and collecting remuneration of the Group for managing portfolios of the management funds has been described in articles of associations of these funds that were approved by the PFSA. The Management Board of PEM assesses that IFRS 15 implemented on 1 January 2018 will have no significant impact on revenue recognition, in particular for fixed and variable management fee.

28. Financial risk management

The Group is exposed to the following risks:
- market risk, including interest rate risk and currency risk,
- liquidity risk,
- credit risk,
- risk related to measurement of portfolio companies.

The most material risks which the Group is exposed to are presented below.

Market risk

Interest rate risk

The Group's exposure to risk arising on interest rates relates primarily to bank deposits, received loans and issued securities (bills of exchange and bonds).

The Group does not hedge the interest rate risk with financial derivatives. The Group uses sensitivity analysis to measure the interest rate risk.

Sensitivity analysis to the interest rate risk

The interest rate risk management concentrates on minimising fluctuations of interest-related cash flows on financial assets and liabilities of a variable interest rate. The Group is exposed to the interest rate risk in relation to the following categories of financial assets and liabilities:
- received bank loans,
- issued own debt securities.

Currency risk

From 1 January 2017 to 31 December 2017 the Group did not conclude transactions that might expose it to significant currency risk.

On 22 April 2015, the Group issued for benefit of AMC III MOON BF a number of 5.850 registered bonds of C series, convertible to the Company’s ordinary bearer’s shares of H series, of nominal value of EUR 1.000 each and of a total nominal value of EUR 5.850.000. The bonds have been redeemed by the Group prior its maturity on 4 August 2017.

Liquidity risk

Due to the character of transactions and of financial assets the liquidity risk is small. The Group manages the liquidity risk through monitoring payment deadlines and monies demand for servicing payments (ongoing transactions monitored on a weekly basis) and cash demand. Cash demand is compared against available sources of financing (especially by evaluating the possibilities of obtaining financing in the form of loans, borrowings, bonds) and it is confronted with investments with free monies. Since 14 July 2015 the Group has applied "Cash pool" system - a financial service enabling mutual balancing between companies in the Group. Due to this service, the Group has a stronger position for negotiations, higher creditworthiness and it uses cash more efficiently and decreases costs of interest.

The Company manages the risk through monitoring liquidity ratios based on carrying amounts, analysing the level of liquid assets in relation to cash flows and maintaining access to diverse sources of financing (of which also to credit facilities).

The liquidity management process is optimised through centralised management of funds in the Group where liquid excesses of cash generated by individual companies from the Group are invested in borrowings and other instruments issued by companies from the Group (less credit risk). The surpluses of the Company's cash are invested in short-term liquid financial instruments, e.g. bank deposits.

One of the liquidity risk management method is also maintaining committed and unused credit facilities. They reserve liquidity.

Credit risk

The Company's credit risk is primarily related to bank deposits and trade receivables principally on calculating remuneration for fund management. The maximum amount put to credit risk equals carrying amounts of deposits and receivables. The Group concludes bank deposit agreements with entities of high creditworthiness and it deposits its cash for short periods. Receivables from management have short payment deadlines related to quarters for which remuneration is calculated.

Risk related to measurement of portfolio companies

Risk related to measurement of portfolio companies affects the value of assets under management and the amount of received remuneration.

In 2017 the Group performed measurement at fair value of companies being investments of the managed funds with at least quarterly frequency. The measurement value translates into the value of assets under management, and hence is reflected in the amount of calculated remuneration (fixed or variable).

Due to the fact that funds managed by the Group invest their capital for 5 to 10 years, and the financing is usually received by companies not listed on the stock exchange, the measurement of assets under management carries a risk related to unfavourable changes to measurement of assets under management, and hence to the level of received remuneration. As a result, this could negatively affect the Group's profit/loss.

CAPITAL MANAGEMENT

The primary objective of the Group capital management is to maintain safe capital ratios which would support operating activities, increase value for shareholders and keep capital requirements imposed by legislation. As at 31 December 2017 and 31 December 2016 the Group met the capital requirement imposed by law.

In 2017, MCI Capital TFI S.A. was obliged to maintain equity in the amount of PLN 9.671 thousand (minimum capital requirement). As at 31 December 2017 the share capital of the Investment Fund Company amounted to PLN 22.595 thousand. No instances of regulatory capital requirement excesses occurred during 2017.