KPMG

MCI Capital S.A.

Opinion and Report

of the Independent Auditor

Financial Year ended

31 December 2016

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of MCI Capital S.A.

Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of MCI Capital S.A., with its registered office in Warsaw, Plac Europejski 1 ("the Company"), which comprise the separate statement of financial position as at 31 December 2016, the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Separate Financial Statements

Management of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union and with other applicable regulations. Management of the Company is also responsible for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act"), Management of the Company and members of the Supervisory Board are required to ensure that the separate financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of separate financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Company, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying separate financial statements of MCI Capital S.A.:

- give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2016 and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;
- comply, in all material respects, with the applicable regulations and the provisions of the Company's articles of association that apply to the Company's separate financial statements; and
- have been prepared from accounting records, that, in all material respects, have been properly maintained.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Company's Activities

Management of the Company is responsible for the report on the Company's activities.

Our opinion on the separate financial statements does not cover the report on the Company's activities.

As required by the Accounting Act, and the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "Decree") we report that the accompanying report on the Company's activities includes the information required by Art. 49 of the Accounting Act and the Decree and the information is consistent, in all material respects, with the separate financial statements. Furthermore, based on our knowledge about the Company and its environment obtained in the audit, we have not identified material misstatements in the report on the Company's activities.

As required by the Accounting Act and the Decree we report that the statement of corporate governance, which is a separate part of the report on the Company's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, g, j and k of the Decree. Furthermore we report that the information identified in paragraph 91 subparagraph 5 point 4 letter c, d, e, f, h and i of the Decree, included in the statement of corporate governance, in all material respects:

- has been prepared in accordance with the applicable regulations; and
- is consistent with the information contained in the separate financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original
....
Michał Witecki
Key Certified Auditor
Registration No. 12316

Signed on the Polish original
....
Stacy Ligas
Member of the Management Board of KPMG Audyt Sp. z o.o., entity which is the General Partner of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k

21 March 2017

MCI Capital S.A.

Report on the audit

of the separate financial statements

Financial Year ended

31 December 2016

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Contents

1. General

1.1. General information about the Company

1.1.1. Company name

MCI Capital S.A.

The Management Board of MCI Capital S.A. (formerly: MCI Management S.A.), with its registered office in Warsaw, informed in the current report dated 3 December 2015 that the Company was notified on 2 December 2015 by the District Court for the Capital City of Warsaw, XII Commercial Department of the National Court Register about the changes in § 1. 1 and 2, § 7. 1 and § 7. 13 Statutes of the Company, in particular the change of the Company name from "MCI Management Spółka Akcyjna" to "MCI Capital Spółka Akcyjna".

1.1.2. Registered office

Plac Europejski 1
00-844 Warsaw

1.1.3. Registration in the register of entrepreneurs of the National Court Register

Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
Date:	28 March 2001
Registration number:	KRS 0000004542
Share capital as at the end of the reporting period:	PLN 58,752,198

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

As at 31 December 2016, the Management Board of the Company was comprised of the following members:

- Tomasz Czechowicz – President of the Management Board,
- Wojciech Marcińczyk – Vice President of the Management Board,
- Ewa Ogryczak – Vice President of the Management Board,
- Tomasz Masiarz – Member of the Management Board.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname:	Michał Witecki
Registration number:	12316

1.2.2. Audit Firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office:	ul. Inflancka 4A, 00-189 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered into the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.3. Prior period separate financial statements

The separate financial statements as at and for the financial year ended 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The separate financial statements were approved at the General Meeting on 28 June 2016 where it was resolved to allocate the net profit for the prior financial year of PLN 121,463 thousand to reserve capital.

The separate financial statements were submitted to the Registration Court on 11 July 2016.

1.4. Audit scope and responsibilities

The audited Company prepares its separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of the Management Board dated 17 January 2005.

The separate financial statements were audited in accordance with the contract dated 8 July 2016, concluded on the basis of the resolution of the Supervisory Board dated 9 May 2016 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) (“the Accounting Act”) and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.We audited the separate financial statements at the Company during the period from 6 March 2017 to 21 March 2017.

Management of the Company is responsible for the preparation, on the basis of properly maintained accounting records, of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Company is also responsible for the Report on the Company’s activities.

Our responsibility is to express an opinion and to prepare a report on the audit of the separate financial statements based on our audit.

Management of the Company submitted a statement, dated as at the same date as this report, as to the preparation of the separate financial statements that give a true and fair view, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the separate financial statements.

All required statements, explanations and information were provided to us by Management of the Company and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 ("IESBA Code") and the impartiality and independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000 with amendments) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code.

2. Financial analysis of the Company

2.1. Summary analysis of the separate financial statements

2.1.1. Separate statement of financial position

ASSETS	31.12.2016 PLN '000	% of total	31.12.2015 PLN '000	% of total
Non-current assets				
Property, plant and equipment	784	0.1	349	0.0
Investments certificates	113,945	8.5	185,446	13.3
Investments in subsidiaries	1,083,838	80.8	1,095,921	78.4
Investments in associates	21,389	1.6	41,726	3.0
Investments in other entities	7	0.0	7	0.0
Loans	205	0.0	1,302	0.1
Trade and other receivables	437	0.0	-	-
Deferred tax assets	8,000	0.6	3,603	0.3
Derivatives	2,110	0.2	1,784	0.1
Total non-current assets	**1,230,715**	**91.8**	**1,330,138**	**95.2**
Current assets				
Trade and other receivables	1,960	0.1	1,558	0.1
Receivables from bills of exchange	26,063	1.9	4,705	0.3
Loans	871	0.1	984	0.1
Cash and cash equivalents	81,262	6.1	60,326	4.3
Total current assets	**110,156**	**8.2**	**67,573**	**4.8**
TOTAL ASSETS	**1,340,871**	**100.0**	**1,397,711**	**100.0**

EQUITY AND LIABILITIES	31.12.2016 PLN '000	% of total	31.12.2015 PLN '000	% of total
Equity				
Share capital	58,752	4.4	61,780	4.4
Reserve capital	1,020,712	76.1	926,209	66.3
Other reserve capital	43,773	3.3	43,644	3.1
Treasury shares	-	-	(150)	0.0
Retained earnings	1,671	0.1	1,671	0.1
Net profit	(82,243)	(6.1)	121,463	8.7
Total equity	**1,042,665**	**77.8**	**1,154,617**	**82.6**
Non-current liabilities				
Received loans	107	0.0	148	0.0
Bonds issued	221,315	16.5	137,240	9.8
Total non-current liabilities	**221,422**	**16.5**	**137,388**	**9.8**
Current liabilities				
Trade and other payables	4,108	0.3	599	0.0
Bonds issued	44,747	3.3	93,316	6.7
Bills of exchange issued	16,031	1.2	-	-
Received loans	41	0.0	41	0.0
Provisions	11,857	0.9	11,750	0.9
Total current liabilities	**76,784**	**5.7**	**105,706**	**7.6**
TOTAL EQUITY AND LIABILITIES	**1,340,871**	**100.0**	**1,397,711**	**100.0**

2.1.2. Separate statement of profit or loss and other comprehensive income

	1.01.2016 - 31.12.2016 zł '000	1.01.2015 - 31.12.2015 zł '000
Revaluation of shares	(76,395)	110,440
Revaluation of investment certificates	(10,959)	22,676
Revaluation of derivatives	326	(7,062)
Other investment profits	12,080	-
Investment profits/(losses)	**(74,948)**	**126,054**
Operating expenses	(5,351)	(5,640)
Other operating income	153	2,651
Other operating expenses	-	(674)
Results from operating activities	**(80,146)**	**122,391**
Income on dividends received	5,053	4,117
Finance income	5,196	4,454
Finance expenses	(15,416)	(11,241)
Profit/(loss) before tax	**(85,313)**	**119,721**
Income tax expense	3,070	1,742
Net profit/(loss)	**(82,243)**	**121,463**
Other comprehensive net income	-	-
Total comprehensive income	**(82,243)**	**121,463**
Earnings per share		
Basic earnings per share (PLN)	(1.34)	1.94
Diluted earnings per share (PLN)	(1.23)	1.84

2.2. Selected financial ratios

		2016	2015	2014
1.	**Total assets**	1,340,871	1,397,711	1,223,455
2.	**Investments in subsidiaries and associates**	1,105,227	1,137,647	1,026,714
3.	**Investment certificates**	113,945	185,446	154,601
4.	**Equity (not including net profit for the period)**	1,124,908	1,033,154	680,123
5.	**Net profit/(loss)**	(82,243)	121,463	352,281
6.	**Return on investment**			
	profit for the period x 100% / revenue	109.7%	96.4%	95.6%
7.	**Return on equity**			
	profit for the period x 100% / equity - profit for the period	-7.3%	11.8%	51.8%
8.	**Debt ratio**			
	liabilities x 100% / equity and liabilities	22.2%	17.4%	15.6%
9.	**Current ratio**			
	current assets* / current liabilities**	1.4	0.6	1.1

*Current assets exclude trade receivables due in more than 12 months.
**Current liabilities are comprised of short-term provisions for liabilities, short-term liabilities and other short-term accruals.

3. Detailed report

3.1. Accounting system

The Company maintains current documentation describing the applied accounting principles adopted by the Management Board to the extent required by Art. 10 of the Accounting Act.

On the basis of the work performed, we have not identified any material irregularities in the accounting system which have not been corrected and that could have a material effect on the separate financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original
....
Michał Witecki
Key Certified Auditor
Registration No. 12316

Signed on the Polish original
....
Stacy Ligas
Member of the Management Board
of KPMG Audyt Sp. z o.o., entity
which is the General Partner of
KPMG Audyt Spółka z ograniczoną
odpowiedzialnością sp.k

21 March 2017

MCI Capital S.A.

Financial Statements
for the financial year ending on 31 December 2016

For the shareholders of MCI Capital S.A.

In accordance with the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Journal of Laws of 2014, No 133), the Management Board of the entity is obliged to procure preparation of the financial statements in accordance with governing accounting principles, which presents the true, fair and clear view of the financial and material situation of MCI Capital S.A. for the financial year ending on 31 December 2016 and its financial result for the financial year ending on that day.

These financial statements were approved for publication and signed by the Management Board of the Company.

Name:	Position/Function	Signature
Tomasz Czechowicz	President of the Management Board	
Ewa Ogryczak	Vice-President of the Management Board	
Wojciech Marcińczyk	Vice-President of the Management Board	
Tomasz Masiarz	Board Member	

Keeping the Books of Account
Mazars Polska Sp. z o.o.
00-549 Warsaw, ul. Piękna 18

Warsaw, 21 March 2017

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SELECTED FINANCIAL DATA

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000	For the period: from 01.01.2016 to 31.12.2016 EUR'000	For the period: from 01.01.2015 to 31.12.2015 EUR'000
Investment profits	(74 948)	126 054	(17 128)	30 122
Profit on operating activities	(80 146)	122 391	(18 316)	29 247
Profit before taxation	(85 313)	119 721	(19 497)	28 609
Net profit	(82 243)	121 463	(18 795)	29 025
Net cash from operating activities	(218)	1 290	(50)	308
Net cash from investment activities	13 336	2 605	3 048	622
Net cash from financial activities	7 818	41 153	1 787	9 834
Net increase/(decrease) of cash and cash equivalents	20 936	45 048	4 785	10 765

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000	Balance as at 31.12.2016 EUR'000	Balance as at 31.12.2015 EUR'000
Total assets	1 340 871	1 397 711	303 090	327 986
Non-current liabilities	221 422	137 388	50 050	32 239
Current liabilities	76 784	105 706	17 356	24 805
Equity	1 042 665	1 154 617	235 684	270 941
Share capital	58 752	61 780	13 280	14 497
No of shares (in items)	58 752 198	61 779 619	58 752 198	61 779 619
Weighted average no of shares (in items)	61 527 334	62 654 068	61 527 334	62 654 068
Profit (loss) per one weighted average ordinary share (in PLN / EUR)	(1,34)	1,94	(0,31)	0,46
Book value per one share (in PLN / EUR)	17,75	18,69	4,01	4,39

The above selected financial data are in addition to the financial statements prepared in accordance with the EU IFRS and have been converted into EUR according to the following principles:

– individual assets and liabilities as at the balance sheet date - according to the average exchange rate prevailing as at the balance sheet date, announced by the National Bank of Poland; respectively as at 31 December 2016 – 4.4240, and as at 31 December 2015 – 4.2615;
– individual items in the statement of profit and loss and other comprehensive income and the statement of cash flows for the period from 1 January to 31 December of the given year - at the average rate, calculated as the arithmetic average of exchange rates published by National Bank of Poland on the last day of the month during the period; respectively for the period from 1 January to 31 December 2016 – 4.3757 and from 1 January to 31 December 2015 – 4.1848.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the financial year ending on 31 December 2016

	NOTES	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Revaluation of shares	1a	(76 395)	110 440
Profit on investment certificates	1b	(10 959)	22 676
Revaluation of derivative financial instruments	1c	326	(7 062)
Other income on investments	2	12 080	-
Investment profits (loss)		**(74 948)**	**126 054**
Operating expenses	3	(5 351)	(5 640)
Other operating income		153	2 651
Other operating expenses		-	(674)
Profit (loss) on operating activities		**(80 146)**	**122 391**
Revenues from dividends received	4	5 053	4 117
Financial income	5	5 196	4 454
Financial expenses	5	(15 416)	(11 241)
Profit (loss) before taxation		**(85 313)**	**119 721**
Income tax	6	3 070	1 742
Net profit (loss)		**(82 243)**	**121 463**
Other net comprehensive income		-	-
Other comprehensive income		**(82 243)**	**121 463**
Earnings (loss) per share			
Basic	7	(1,34)	1,94
Diluted	7	(1,23)	1,84

The statement on profit or loss and other comprehensive income should be read in conjunction with selected explanatory notes and the notes to the financial statements on pages 9 to 49.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	NOTES	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
ASSETS			
Non-current assets			
Tangible fixed assets		784	349
Investment certificates	8	113 945	185 446
Investments in subsidiaries	9	1 083 838	1 095 921
Investments in associates	10	21 389	41 726
Investments in other entities		7	7
Loans granted	11	205	1 302
Trade and other receivables	12	437	-
Deferred income tax assets	6	8 000	3 603
Derivatives	1d	2 110	1 784
		1 230 715	**1 330 138**
Current assets			
Trade and other receivables	12	1 960	1 558
Receivables from bills of exchange	13	26 063	4 705
Loans granted	11	871	984
Cash and cash equivalents	14	81 262	60 326
		110 156	**67 573**
Total assets		**1 340 871**	**1 397 711**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	58 752	61 780
Reserve capital	15	1 020 712	926 209
Other reserve capital		43 773	43 644
Own shares	15	-	(150)
Retained earnings		1 671	1 671
Net profit		(82 243)	121 463
		1 042 665	**1 154 617**
Non-current liabilities			
Received loans		107	148
Liabilities on bonds	17	221 315	137 240
		221 422	**137 388**
Current liabilities			
Trade and other payables	18	4 108	599
Liabilities on bonds	17	44 747	93 316
Bills of exchange	19	16 031	-
Received loans		41	41
Provisions	20	11 857	11 750
		76 784	**105 706**
Total Equity and Liabilities		**1 340 871**	**1 397 711**

The statement of financial position should be read in conjunction with selected explanatory notes and the notes to the financial statements on pages 9 to 49.

STATEMENT OF CHANGES IN EQUITY
for the period from 1 January to 31 December 2016

PLN'000	Share capital	Reserve capital				Other reserve capital		Own shares	Retained earnings	Net profit	Total equity
		Issue of shares as part of conversion of convertible bonds	Issue of shares - implementation of the management options programme	Issue of shares above their nominal value	Distribution of profits	Management options programme and other share-based payments	Measurement of the equity component of bonds				
As at 01.01.2015	62 732	28 175	2 792	106 440	440 214	37 793	5 395	(5 089)	1 671	352 281	-
Transfer of profit/loss	-	-	-	-	352 281	-	-	-	-	(352 281)	-
Management option programmes from own shares	-	-	-	-	-	78	-	-	-	-	78
Redemption of own shares	(952)	-	-	-	(3 693)	-	-	4 645	-	-	-
Remuneration in the form of shares (Note 23)	-	-	-	-	-	636	-	101	-	-	737
Settlement of option programmes	-	-	-	-	-	(258)	-	193	-	-	(65)
Profit/loss for the period	-	-	-	-	-	-	-	-	-	121 463	121 463
As at 31.12.2015	**61 780**	**28 175**	**2 792**	**106 440**	**788 802**	**38 249**	**5 395**	**(150)**	**1 671**	**121 463**	**1 154 617**
As at 01.01.2016	**61 780**	**28 175**	**2 792**	**106 440**	**788 802**	**38 249**	**5 395**	**(150)**	**1 671**	**121 463**	**1 154 617**
Transfer of profit/loss	-	-	-	-	121 463	-	-	-	-	(121 463)	-
Management option programmes from own shares	-	-	-	-	-	-	-	-	-	-	-
Purchase of own shares (Note 15)	(3 028)	-	-	-	(26 960)	-	-	-	-	-	(29 988)
Remuneration in the form of shares (Note 23)	-	-	-	-	-	207	-	150	-	-	357
Settlement of option programmes	-	-	-	-	-	(78)	-	-	-	-	(78)
Profit/loss for the period	-	-	-	-	-	-	-	-	-	(82 243)	(82 243)
As at 31.12.2016	**58 752**	**28 175**	**2 792**	**106 440**	**883 305**	**38 378**	**5 395**	**-**	**1 671**	**(82 243)**	**1 042 665**

The statement of changes in equity should be read in conjunction with selected explanatory notes and the notes to the financial statements on pages 9 to 49.

STATEMENT OF CASH FLOWS
for the period from 1 January to 31 December 2016

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Cash flows from operating activities		
Net profit for the reporting period	**(82 243)**	**121 463**
Adjustments:		
Depreciation of tangible fixed assets	347	165
Revaluation of shares, certificates and derivatives	74 948	(126 054)
Share-based incentive programmes	357	-
Measurement of management warrants / options	-	1 124
Proceeds from sureties / guarantees	-	2 686
Costs of issue of bonds deducted by ERSTE	-	1 531
Costs of issue of bonds - paid	(1 147)	(1 867)
Deposits paid	(421)	-
Finance income and expenses	9 816	3 088
Flat-rate income tax collected	(118)	(6)
Other adjustments	(137)	114
Change in provisions	107	133
Change in trade and other receivables	(839)	420
Change in trade and other payables	3 509	235
Change in deferred tax assets and liabilities	(4 397)	(1 742)
Net cash from operating activities	**(218)**	**1 290**
Cash flows from investment activities		
Dividends received	5 053	4 117
Proceeds from sale and repayment of bills of exchange	14 119	7 130
Proceeds from granted loans	1 381	5 961
Proceeds from acquisition of subsidiaries	-	7
Proceeds from the sale of investment certificates	87 138	-
Proceeds from the MCI Helix Ventures Partners FIZ fund	12 080	-
Expenditure on granted loans	(200)	(1 300)
Outflows for the purchase of certificates	(26 596)	(8 169)
Outflows for the purchase of bills of exchange	(35 000)	(4 600)
Outflows for the purchase of shares of subsidiaries	(43 975)	(500)
Outflows for the purchase of fixed assets	(664)	(41)
Net cash from investment activities	**13 336**	**2 605**
Cash flows from financial activities		
Outflows for the purchase of own shares	(29 947)	-
Issue of bills of exchange	16 000	-
Issue of bonds	120 150	64 469
Repayment of bills of exchange with interests	-	(13 095)
Repayment of loans with interests	(42)	(36)
Repayment of bonds	(84 800)	-
Interests paid on bonds	(13 543)	(10 185)
Net cash from financial activities	**7 818**	**41 153**
Net increase/(decrease) of cash and cash equivalents	**20 936**	**45 048**
Opening balance of cash and cash equivalents	60 326	15 278
Closing balance of cash and cash equivalents	**81 262**	**60 326**

The statement of cash flows should be read in conjunction with selected explanatory notes and the notes to the financial statements on pages 9 to 49.

SELECTED EXPLANATORY INFORMATION

General information

With a decision of the District Court for the city of Wrocław-Fabryczna of 21 July 1999, MCI Capital S.A. (hereinafter referred to as the "Company" or "MCI") was entered into the Commercial Register under RHB No 8752. With a decision of the District Court for Wrocław-Fabryczna in Wrocław, 6th Commercial Division of the National Court Register of 28 March 2001, the Company was entered into the National Court Register under No 0000004542. The Company was assigned:

- Statistical Number REGON: 932038308,
- NIP (tax ID): 899-22-96-521,
- The registered office of the Company is located at Pl. Europejski 1 in Warsaw,
- The life of the Company is unlimited.

On 17 November 2015 the Company changed its name from "MCI Management S.A." to "MCI Capital S.A.". Detailed information is entered into current report RB 45/2015.

MCI carries on direct investment activities of the private equity / venture capital type and invests its assets through 5 investment funds of diversified investment strategy. The funds invest entrusted funds in investment assets in accordance with their investment strategy. From large buyout and growth investment (MCI.EuroVentures 1.0 FIZ and MCI.TechVentures 1.0 FIZ) to investments in start-ups and small technology companies (Helix Ventures FIZ and Internet Ventures FIZ) to debt instruments and property (MCI.CreditVentures 2.0 FIZ). Investments in portfolio companies are made in the horizon of several years, during which management actively supports development of companies and supervises execution of business strategy by them, and then looks for opportunities to sell. The most important assets are shares in companies and other financial instruments, such as: bonds, investment certificates, bills of exchange, loans and deposits.

Basis for the drafting of the Financial Statements

These financial statements were prepared in accordance with the International Financial Reporting Standards as approved by the European Union (IFRS). The IFRS include standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") and incorporated into European Union law ("EU") in the form of implementing regulations of the European Commission.

Information concerning the preparation of the consolidated financial statements

In accordance with the criteria of paragraph 27 of IFRS 10, an entity meets the definition of an investment entity if it:

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis, thus it can be classified as an investment entity.

The main goal of MCI in purchasing the investment certificates for funds was to earn benefits by investing in financial assets and earning profit from an increase in the value of net assets of the funds. The company invests funds in order to obtain returns from the increase in the value of investments (investment certificates). The sole activity of the Company is to invest funds to five closed-end investment funds and thus obtain a return on the invested capital. The company, as a public company, has many investors for whom the most important issue is the return on the invested capital over the long term. The Management Board analyses and evaluates the performance of the Company's activities through the prism of the increase in the fair value of assets being held, which are portfolio investments of closed-end investment funds, through which the Company conducts its investments. The fair value is the best reflection of the value of assets held by the Company.

The Company meets the criteria for classification as an investment entity as defined in paragraph 27 of IFRS 10 *Consolidated Financial Statements* ("IFRS 10"). The Company does not prepare consolidated financial statements because it does not have subsidiaries which provide services related to investment activities of the Company.

These financial statements of MCI Capital S.A. are the only financial statements prepared by MCI Capital S.A.

Date of approval of the financial statements for the current financial year

The financial statements were approved by the Management Board of the Company on 21 March 2017.

Date of approval of the financial statements for the previous financial year

The financial statements were approved by the Management Board of the Company on 21 March 2016.

Functional currency and presentation currency

The items included in the financial statements relating to the Company are measured and presented using the primary currency of the economic environment in which the Company operates ("the functional currency"), which is the Polish zloty. The data in the financial statements are presented in thousands of Polish zloty, unless stated otherwise.

Judgements and estimates

The preparation of the financial statements requires the Management Board of the Company to make judgements, estimates and assumptions that affect the adopted accounting policies and presented amounts reported in the financial statements. Actual values may differ from those estimates.

All judgements, assumptions and estimates which have been made for the purposes of these financial statements are presented in the required disclosures relating to individual items of these financial statements, in the supplementary notes to the financial statements, which form an integral part thereof. Estimates and judgements are subject to ongoing verification. They are based on historical experience, including expectations of future events that are reasonable in a given situation and new information.

Below are the key assumptions concerning the future and other basic reasons for uncertainty of estimates as at the balance sheet date.

Fair Value of Financial Instruments

The model and assumptions adopted for the fair value measurement. Significant risks relate to the fair value of shares in subsidiaries, which are strongly influenced by accepted models of measurement. Main assumptions and judgements are presented in **Note 9, *"Investments in subsidiaries"***.

Share-based payments

Determination of the value of individual programmes of share-based payments is based on estimates of the Company adopted for the fair value measurement of equity instruments granted, including: the actual strike price of shares of MCI Capital S.A. on the grant date, the estimate of historical volatility, risk-free interest rate, the expected dividend yield, the period in which the holder may exercise rights under the programme and accepted model of measurement. More information is included in **Note 22 *"Employee Benefits"***.

Accounting Policy

The accounting principles used in these financial statements are the same as those applied by the Company for the financial statements as at the date and for the year ended on 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS
for the period from 1 January to 31 December 2016

1. Investment profits

The item of gains and losses arising from changes in the fair value includes revaluation of financial assets:
- shares and interests in subsidiaries, associates and other entities,
- investment certificates of closed-end investment funds ("FIZ") which belong to MCI,
- derivative instruments,
- other income on investments.

1a. Revaluation of shares

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Measurement of subsidiaries		
MCI Fund Management Sp. z o.o.*	(54 765)	106 716
MCI Ventures Sp. z o.o.	-	2
MCI Fund Management Sp. z o.o. II MCI.PrivateVentures S.K.A.	(3 128)	(4 055)
MCI Fund Management Sp. z o.o. IV MCI.PrivateVentures S.K.A.	1 835	1 403
	(56 058)	**104 066**
Measurement of affiliates		
Private Equity Managers S.A.	(20 337)	6 374
	(20 337)	**6 374**
Total revaluation of shares	**(76 395)**	**110 440**

*The value of assets of MCI Fund Management Sp. z o.o. in 99% consists of value of investment certificates of MCI.TechVentures 1.0 and MCI.EuroVentures 1.0 subfunds, separated from MCI.PrivateVentures FIZ. This implicates that indirectly update of the value of MCI Fund Management Sp. z o.o. is a result of new valuation of the investment certificates of subfunds mentioned above, to the amount of PLN -52,556 ths (loss). Additionally, in the second and fourth quarters of 2016, a capital increase took place in the company; total issue value was PLN 43,975 ths.

Subsidiaries do not provide investment management services or any other services related to MCI's investment activities.

Information on the measurement of these items is presented in **Note 9 *"Investments in subsidiaries"*** and in **Note 10 *"Investments in associates"***.

1b. Profit on investment certificates

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Investment certificates of Helix Ventures Partners FIZ*	(6 509)	746
Investment certificates of Internet Ventures FIZ**	(5 842)	12 569
Investment certificates of MCI.CreditVentures FIZ 2.0***	1 959	9 361
Unrealised profit on revaluation of investment certificates	**(10 392)**	**22 676**

*The negative result from the revaluation of Helix Ventures Partners FIZ investment certificates was mainly due to the decrease in the net asset value of the fund, related to the income distribution. In 2016 the fund paid out its revenues to a total of PLN 14.6 m to the participants, of which MCI received PLN 12.1 m (details are described in **Note 2 *"Other income on investments"***). Net assets fell by PLN 12.4 m in 2016.

**The negative result from the update of investment certificates of Internet Ventures FIZ was mainly due to changes in net assets resulting from operation (PLN 9.6 m), which was partially offset by the capital inflow to the fund (the fund's net capital was increased by PLN 3.0 m). The net asset value of the fund in 2016 decreased by PLN 6.6 m.

***The decrease of unrealized result on investment certificates of MCI.CreditVentures FIZ was mainly due to the change in net assets of the fund resulting from the operation. The fund generated a lower operating result in 2016 (a decrease of PLN 7.2 m compared to 2015), which was primarily a consequence of a decrease in unrealized profit from valuation of fund's deposits.

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Certyfikaty inwestycyjne Internet Ventures FIZ	(1 520)	-
Certyfikaty inwestycyjne MCI.CreditVentures FIZ 2.0	953	-
Realised profit on redemption of investment certificates	**(567)**	**-**
Profit on investment certificates	**(10 959)**	**22 676**

Information on the measurement of the above items is presented in **Note 8 *"Investment certificates"***.

1c. Revaluation of derivative financial instruments

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Embedded derivative on investment certificates Internet Ventures FIZ	1 110	(6 317)
Embedded derivative on investment certificates Helix Ventures Partners FIZ	(784)	(746)
	326	**(7 062)**

In the current financial statements of the Company the presentation of derivative valuation has been changed in relation to the financial statements for the year 2015. In 2016 the revaluation of derivative financial instruments was presented in the Profit (loss) on investments. Details on the change of presentation in relation to data published in the report for 2015 are presented in **Note 5 *"Financial income and expenses"***.

1d. The balance sheet value of derivative financial instruments

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Embedded derivative on investment certificates Internet Ventures FIZ	1 110	-
Embedded derivative on investment certificates Helix Ventures Partners FIZ	1 000	1 784
	2 110	**1 784**

The Company measures the embedded financial instrument, namely the mechanism of privileged distribution of funds invested in investments made by Ventures FIZ and Helix Ventures Partners FIZ. The Company has a priority of return from invested funds in the event of the exit from the investments.

2. Other income on investments

In October 2016, MCI Capital S.A. as a MCI Helix Ventures Partners FIZ fund participant received PLN 12,080 ths of income, as a result of accomplished investment in Mediasoft Sp. z o.o. (eBroker). Payment of income from the fund was made in accordance with the provisions of the fund's statute, in particular Art. 31 (1), and (2) and in line with Art. 29 and Art. 31 (3) of the fund's statute.

3. General and administrative expenses

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Depreciation of fixed assets and amortization of intangible assets	(347)	(165)
Consumption of materials and energy	(176)	(57)
Outsourced services	(2 746)	(2 269)
Taxes and fees	(53)	(18)
Wages and salaries	(1 824)	(2 856)
Employee benefits	(75)	(68)
Social insurance	(34)	(35)
Other costs	(96)	(172)
	(5 351)	**(5 640)**

4. Revenues from dividends received

In 2016, the Company received a dividend from Private Equity Managers S.A. from the profit generated for 2015 in the total amount of PLN 5,052,736.81. The Company possessed 350,641 shares entitled to the dividend. The dividend date was fixed on 29 June 2016. The payments were made in two installments: the first installment payable on July 15, 2016 in the amount of PLN 8.00 for 1 share (PLN 2,805,128.00 in total) and the second installment payable on September 30, 2016 in the amount of PLN 6.41 per 1 share (PLN 2,247,608.81 in total).

In 2015, the Company received a dividend from Private Equity Managers S.A. from the profit generated for 2014 in the total amount of PLN 4,117,210.44 (PLN 12.04 per share). At that time, the Company held 350,641 shares with a right to dividend.

5. Financial income and expenses

Financial income

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Interests on short-term bank deposits	200	81
Fee and commission income - guarantees*	4 175	3 551
Interest income on purchased bills of exchange	478	234
Interest income on loans	66	147
Foreign currency exchange gains or losses	3	353
Other financial income	274	88
	5 196	**4 454**

*MCI Capital S.A. provides services related to investments which consist in financial support to the entity in which an investment in the form of suretyship and guarantee was made to maximise returns from investing in investments, this activity does not constitute a separate significant activity or a separate major source of revenue for the investment entity.

In the current financial statements of the Company the presentation of financial income has changed in relation to the financial statements for the year 2015. The financial income relating to dividend received has been excluded from the financial income line.

Due to the change in presentation of dividend income and derivatives valuation, the following changes have been made to the Company's published financial statements for 2015:

	For the period: from 01.01.2015 to 31.12.2015 PLN'000		For the period: from 01.01.2015 to 31.12.2015 PLN'000
	Aproved financial statements	Change in presentation	Data restated in this financial statements
Revaluation of shares	110 440	-	110 440
Profit on investment certificates	22 676	-	22 676
Revaluation of derivative financial instruments	-	(7 062)	(7 062)
Other income on investments	-	-	-
Investment profits (loss)	**133 116**	**(7 062)**	**126 054**
Operating expenses	(5 640)	-	(5 640)
Other operating income	2 651	-	2 651
Other operating expenses	(674)	-	(674)
Profit (loss) on operating activities	**129 453**	**(7 062)**	**122 391**
Revenues from dividends received	-	4 117	4 117
Finance income	8 571	(4 117)	4 454
Finance expenses	(11 241)	-	(11 241)
	(7 062)	7 062	-
Profit (loss) before taxation	**119 721**	**-**	**119 721**
Income tax	1 742	-	1 742
Net profit (loss)	**121 463**	**-**	**121 463**

Financial expenses

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Interests costs on:		
Issued bills of exchange	(31)	(20)
Bank loans	(5)	(14)
Loans receives	(2)	-
Issued bonds	(14 611)	(11 205)
Budgetary interest or other interest	-	(2)
Gains and losses on foreign exchange rate differencies (net)	(1)	-
Other*	(766)	-
	(15 416)	**(11 241)**

*This item includes the remuneration for the subsidiary of MCI Capital S.A., ie MCI Fund Management Sp. z o.o. for making available the investment certificates of MCI.TechVentures 1.0 and MCI.EuroVentures 1.0 subfunds, which are collateral for bonds issued by MCI Capital S.A.

6. Income tax

Income tax recognized in the statement of comprehensive income

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Income tax - current part	(1 327)	-
Income tax - deferred part	4 397	1 742
	3 070	**1 742**

Reconciliation of income tax

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Profit before taxation	(85 313)	119 721
Income tax recognized in the financial result	(3 070)	(1 742)
Effective tax rate	3,6%	(1,5%)
Non-taxable income (-)*	(19 121)	(149 985)
Income tax not recognised in the income statement (+)**	4 155	4 029
Non-taxable costs recognised in the income statement (+)***	111 006	20 931
Tax costs not recognised in the income statement (-)****	(3 013)	(3 824)
	93 027	(128 849)
Loss for the period 01.01.2016-30.06.2016 (till the moment of PGK creation)	2 890	-
Taxable amount MCI Capital S.A.	10 604	(9 128)
Taxable amount MCI Fund Management Sp. z o.o.	(3 622)	-
Taxable amount MCI Tax Group	6 982	(9 128)
Current income tax	**1 327**	**-**

*Non-tax revenue mainly includes income from the revaluation of investment certificates and shares.
**Tax revenues mainly comprise income on guarantees (tax revenue in the last settlement period).
***Non-deductible expenses include mainly the costs of revaluation of investment certificates and shares and interest expenses accrued on bonds.
****Tax costs are primarily paid interest on bonds.

On February 15, 2016 MCI Capital S.A. and MCI Fund Management Sp. z o.o. have concluded a contract for the formation of the Tax Group ("Podatkowa Grupa Kapitałowa - PGK"). The parent company of PGK is MCI Capital S.A. PGK tax year is from 1 July to 30 June. The first tax year is from July 1, 2016 to June 30, 2017. The agreement was concluded for three consecutive tax years, what indicates the time from July 1, 2016 to June 30, 2019. The companies forming PGK are jointly liable for its liabilities resulting from income tax during the lasting of the contract.

During the tenor of the PGK, the companies forming it are obliged to maintain each year tax profitability radio of at least 3% (profit of revenues ratio). Otherwise PGK will be dissolved. At the same time, the company cannot benefit from any income tax exemption under other legal acts.

Losses generated by companies before PGK are not subject to expiration. For this reason, MCI 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.

As a result, the Company recognized deferred tax assets for tax losses incurred prior to the PGK due to the fact that their deferred tax liabilities will be settled later (deferred tax assets to be realized after 12 months). At the same time, the company confirms that it is able to generate tax revenue in the future allowing it to settle its tax losses.

Tax losses

Incurred in year	Incurred at 000'PLN	Utilised at 000'PLN	To be utilised at 000'PLN	To be utilised until year
2012	4 715	-	4 715	year after leaving PGK
2013	9 590	-	9 590	2 years after leaving PGK
2014	3 528	-	3 528	3 years after leaving PGK
2015	9 128	-	9 128	4 years after leaving PGK
2016	2 890	-	2 890	5 years after leaving PGK
	29 851	**-**	**29 851**	

Deferred Income Tax

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Deferred income tax assets:		
Due for settlement after 12 months	5 672	5 123
Due for settlement within 12 months	4 508	2 534
	10 180	**7 657**
Deferred income tax liabilities:		
Due for settlement after 12 months	-	-
Due for settlement within 12 months	2 180	4 054
	2 180	**4 054**

In the statement of financial position the Company compensates deferred tax assets and liabilities by disclosing them under one item.

Deferred income tax assets

	Tax losses which can be deducted 000' PLN	Other assets* 000' PLN	Total 000' PLN
As at 31 December 2014	**4 579**	**3 574**	**8 153**
Effect on profit or loss	544	(1 040)	(496)
Effect on equity	-	-	-
As at 31 December 2015	**5 123**	**2 534**	**7 657**
Effect on profit or loss	549	1 974	2 523
Effect on equity	-	-	-
As at 31 December 2016	**5 672**	**4 508**	**10 180**

*The item pertains mainly to the provision for legal costs related to litigations.

Deferred tax liabilities

	Revaluation of the value of portfolio companies	Interests	Other liabilities*	Total
	000' PLN	000' PLN	000' PLN	000' PLN
As at 31 December 2014	**4 225**	**75**	**1 991**	**6 291**
Effect on profit or loss	(4 224)	71	1 916	(2 237)
Effect on equity	-	-	-	-
As at 31 December 2015	**1**	**146**	**3 907**	**4 054**
Effect on profit or loss	-	(22)	(1 852)	(1 874)
Effect on equity	-	-	-	-
As at 31 December 2016	**1**	**124**	**2 055**	**2 180**

*The item relates mainly to revaluation of investment certificates.

Deferred income tax net assets

As at 31 December 2016	**8 000**
As at 31 December 2015	**3 603**

7. Earnings (loss) per share

Earnings (loss) per share

	For the period: from 01.01.2016 to 31.12.2016	For the period: from 01.01.2015 to 31.12.2015
	PLN'000	PLN'000
Earnings (loss) attributable to shareholders of the Company	(82 243)	121 463
Weighted average no of ordinary shares (in 000s)	61 527	62 654
Basic earnings (loss) per share (in PLN per one share)	**(1,34)**	**1,94**

Diluted earnings (loss) per share

	For the period: from 01.01.2016 to 31.12.2016	For the period: from 01.01.2015 to 31.12.2015
	PLN'000	PLN'000
Earnings (loss) attributable to shareholders of the Company	(82 243)	121 463
Earnings (loss) applied when determining diluted earnings per share	(80 837)	122 680
Cost of interest on bonds (PLN 000s)	1 736	1 367
Net cost of interest on bonds (PLN 000s)	1 406	1 217
Weighted average no of ordinary shares (in 000s)	61 527	62 654
Adjustments related to:		
remuneration program based on issuance of shares (000s)	33	-
bonds convertible into shares (000s) (Note 17)	4 167	4 167
Weighted average number of ordinary shares for purposes of diluted earnings per share (000s)	65 727	66 821
Diluted earnings (loss) per share (in PLN per one share)	**(1,23)**	**1,84**

8. Investment certificates

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Investment certificates of Helix Ventures Partners FIZ	4 787	10 973
Investment certificates of Internet Ventures FIZ	23 002	34 184
Investment certificates of MCI.CreditVentures FIZ 2.0	86 156	140 289
	113 945	**185 446**

Measurement of certificates investment

The measurement of investment certificates is carried out on a quarterly basis based on the fair value measurement of portfolio companies owned by these funds and other deposits of such funds. Revaluation of certificates to their fair value from quarterly measurements is recognised in MCI's profit or loss at the end of each quarter.

The investment fair value showing the effect of increase and decrease of investment certificates value by 10 percentage points:

Investment certificates	**10%**	**-10%**
Investment certificates of Helix Ventures Partners FIZ	5 266	4 308
Investment certificates of Internet Ventures FIZ	25 302	20 702
Investment certificates of MCI.CreditVentures 2.0 FIZ	94 772	77 540
	125 340	**102 551**

9. Investments in subsidiaries

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
MCI Fund Management Sp. z o. o.	149 805	160 595
MCI Fund Management Sp. z o. o. II MCI.PrivateVentures S.K.A.	738 453	741 581
MCI Fund Management Sp. z o. o. IV MCI.PrivateVentures S.K.A.	195 580	193 745
	1 083 838	**1 095 921**

Characteristics of subsidiaries:

- **MCI Fund Management Sp. z o. o**

A company with a registered office in Poland which holds certificates of (direct subsidiary of):
  - MCI.TechVentures 1.0 Sub-fund separated within MCI.PrivateVentures FIZ,
  - MCI.EuroVentures 1.0 Sub-fund separated within MCI.PrivateVentures FIZ.

Shareholder in MCI Fund Management Sp. z o. o. Spółka Jawna and general partner in:
  - MCI Fund Management Sp. z o. o. II MCI.PrivateVentures S.K.A.,
  - MCI Fund Management Sp. z o. o. IV MCI.PrivateVentures S.K.A.

- **MCI Fund Management Sp. z o. o. II MCI.PrivateVentures S.K.A.**

A company with its registered office in Poland holding shares in MCI Fund Management Sp. z o. o. Spółka Jawna (direct subsidiary).

- **MCI Fund Management Sp. z o. o. IV MCI.PrivateVentures S.K.A.**

A company with its registered office in Poland holding shares in MCI Fund Management Sp. z o. o. Spółka Jawna (direct subsidiary).

All the above mentioned subsidiaries do not provide services related to investment activities of the Company.

In all of the aforementioned subsidiaries, PEM holds directly or indirectly 100% of shares and 100% of voting rights.

Measurement of shares in subsidiaries

Shares in the above companies are disclosed in fair value based on the adjusted net asset value of a company as at the balance sheet date. Adjusted net asset value is reflected in fair value of investments in subsidiaries - primarily investment certificates of closed-end investment funds.

The difference between the valuation of subsidiaries and the value of investment certificates is affected by:
– unpaid amount of taken up issued A1 series investment certificates in MCI.TechVentures 1.0 FIZ sub-fund for PLN 96m,
– balance of granted and received borrowings, bills of exchange and other assets (receivables, cash and cash equivalents) of PLN 90m.

The fair value of investment certificates in subsidiaries is settled on the basis of published measurements of investment funds based on the reporting valuation or official valuation of the investment funds (in the absence of published financial statements of funds). The measurements of the above funds are carried out on a quarterly basis. The measurements are approved of by the Management Board of MCI Capital TFI S.A.

Below we present a reconciliation of the value of investment certificates held by the Company through subsidiaries and investment certificates held by the Company directly with the value of these subsidiaries as at 31 December 2016 and investment certificates in the amount presented in the Company's balance sheet.

Reconciliation of investment certificates held by MCI and assets value of subsidiaries and investment certificates presented in the MCI balance sheet as at 31 December 2016:

Fund	Held %	NAV as at 31.12.2016 attributable to CG MCI	NAV as at 31.12.2016	NAV as at 31.12.2015	Change in NAV
MCI.TechVentures 1.0	55.44%	548 993	990 248	939 936	50 312
MCI.EuroVentures 1.0	91.37%	721 647	789 807	823 761	(33 954)
MCI.CreditVentures 2.0 FIZ	46.34%	86 156	185 894	184 489	1 405
Internet Ventures FIZ	48.02%	23 001	47 898	54 468	(6 570)
Helix Ventures Partners FIZ	50.00%	4 787	9 574	21 946	(12 372)
Total FIZ assets		**1 384 584**	**2 023 421**	**2 024 600**	**(1 179)**

Fund	Reconciliation of changes in NAV				
	(a) New issues	(b) Redemptions	(c) Distribution of profits	(d) Operating results	Total (a+b+c+d)
MCI.TechVentures 1.0	155 210	(76 940)	-	(27 958)	50 312
MCI.EuroVentures 1.0	33 498	(14 214)	-	(53 238)	(33 954)
MCI.CreditVentures 2.0 FIZ	71 238	(74 046)	-	4 213	1 405
Internet Ventures FIZ	16 125	(13 093)	-	(9 602)	(6 570)
Helix Ventures Partners FIZ	645	-	(14 614)	1 597	(12 372)
Total FIZ assets	**276 716**	**(178 293)**	**(14 614)**	**(84 988)**	**(1 179)**

Investment certificates held by companies from MCI Capital Group	1 384 584
Liabilities of subsidiaries of MCI	(90 813)
Liabilities related to unpaid series of issued investment certificates of MCI.TechVentures 1.0	(95 989)
Investments in subsidiaries and investment certificates presented in MCI balance sheet (Note 8 & 9)	**1 197 783**

In the second half of 2017, the MCI Group is planning to start activities related to simplification of the Group's organizational structure. These actions are mainly aimed at enhancing the transparency of the Group, as well as settlement of mutual settlements (inter-company balances) between individual entities within the Group.

The investment fair value in subsidiaries showing the effect of increase and decrease of investment certificates value by 10 percentage points:

Subsidiary	10%	-10%
MCI Fund Management Sp. z o. o. *	282 193	26 896
MCI Fund Management Sp. z o. o. II MCI.PrivateVentures S.K.A.**	738 453	738 453
MCI Fund Management Sp. z o. o. IV MCI.PrivateVentures S.K.A.**	195 580	195 580
	1 216 226	**960 929**

*The value of investment certificates subject to simulation as of 31 December 2016 is PLN 1,270,562 ths.

**Increase or decrease of investment certificates value does not affect the value of these subsidiaries, since as at 31 December 2016 these companies do not hold investment certificates, but only receivables from the sales of such certificates to MCI Fund Management Sp. z o.o.

10. Investments in associated entities

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Private Equity Managers S.A.	21 389	41 726
	21 389	**41 726**

Measurement of shares in the associate

	Balance as at 31.12.2016	Balance as at 31.12.2015
Number of shares of Private Equity Managers S.A. owned by MCI Capital S.A. (in 000s)	350 641	350 641
Share price (PLN/share)	61,00	119,00
Investment value	**21 389**	**41 726**

As at 31 December 2016 the company holds directly 10.24% of shares of Private Equity Managers S.A. (hereinafter: “PEM”). PEM is the parent company of Private Equity Managers S.A. Capital Group, which focuses on the management of MCI assets (*private equity, venture capital and mezzanine debt*), is treated as an associate in connection with the share and personal ownership of the Company.

Since 9 April 2015 shares of the Company have been listed on the Warsaw Stock Exchange. Shares of Private Equity Managers S.A. were priced at PLN 61.00 per share, i.e. closing price of PEM shares at the session of the Warsaw Stock Exchange on 31 December 2016, and the change of their measurement was posted to the financial result. As at 31 December 2015 shares of PEM were measured at PLN 119.00 per share.

11. Loans granted

Due to the short-term nature of these receivables from loans granted the carrying value is the best approximation of fair value.

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Loans granted to related entities	533	1 683
Loans granted to other entities	543	603
	1 076	**2 286**
Including:		
Non-current part:	205	1 302
Current part:	871	984
	1 076	**2 286**

Loans granted to related entities

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
MCI VentureProjects Sp. z o.o.	315	300
MCI Ventures Sp. z o.o.	13	12
MCI Fund Management Sp. z o.o.	205	1 371
	533	**1 683**

All loans granted by the Company were concluded on market terms/conditions.

MCI Capital S.A. provides investment services involving financial suport in the form of loans granted. This activity does not constitute a significant separate business or separate significant source of revenue for the investment entity.

12. Trade and other receivables

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Trade receivables	38	42
Receivables from related entities*	1 150	1 080
Tax / budget fees	8	12
Accruals	581	78
Other receivables	183	345
	1 960	**1 558**

*Receivables from related parties consist mainly of receivables under sureties granted and financial guarantees, sublease charges, mobile phone overheads and taxis, as well as overhead costs associated with the arrangement of the new office.

Due to the short-term nature of these receivables the carrying value is the best approximation of fair value.

Long-term receivables

The balance of trade and other receivables presented as long-term receivables of PLN 437 ths. as at 31 December 2016 consisted of the guarantee deposit receivable that the Company paid to the lessor in connection with the lease of space in accordance with the terms of the lease. The guarantee deposit will remain on the tenant's account throughout the lease term plus three months.

Receivables from related entities

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
MCI.Private Ventures FIZ	-	593
MCI Venture Projects Sp. z o.o. VI S.K.A.	-	406
Private Equity Managers S.A.*	994	64
MCI Capital TFI S.A.	21	7
PEM Asset Management Sp. z o.o.	41	5
MCI Asset Management Sp. z o.o. Sp.j.	-	5
Other	94	-
	1 150	**1 080**

*This item consists of receivables due to the invoices of telephone and taxi costs, as well as the re-invoiced costs associated with the arrangement of the new office.

13. Receivables related to bills of exchange

Bills of exchange are a liquidity management instrument in MCI Capital S.A.

As at 31 December 2016 the Company had receivables resulting from bills of exchange from the following entities:

	Nominal PLN'000	Interest PLN'000	Interest rate % per anum	Total PLN'000
MCI Fund Management Sp.z o.o.	22 000	148	3,20%	22 148
MCI Fund Management Sp.z o.o. Sp. J.	2 900	6	4,81%	2 906
Private Equity Managers S.A	1 000	9	4,79%	1 009
	25 900	**163**	**-**	**26 063**

As at 31 December 2015 the Company had receivables resulting from bills of exchange from the following entities:

	Nominal PLN'000	Interest PLN'000	Interest rate % per anum	Total PLN'000
MCI Fund Management Sp. z o.o. Sp. J.	4 600	105	4,60%	4 705
	4 600	**105**	**-**	**4 705**

14. Cash and cash equivalents

As at the balance sheet date the balance of cash and cash equivalents of PLN 81,262 ths. comprised primarily cash in bank and bank deposits and investment units of Quercus Ochrony Kapitału Subfund seat aside in Quercus Parasolowy SFIO.

Investment units of Quercus Capital Protection Subfund (balance at the balance sheet date of PLN 40,000 ths.) are treated as cash equivalents because they are highly liquid assets, i.e. they can be withdrawn from the Subfund within 4 days, easily exchanged for specified amounts in cash and exposed to a slight risk of change in value.

As at 31 December 2015, the balance of cash and cash equivalents amounted to PLN 60,326 ths.

15. Equities

Share capital

	Balance as at 31.12.2016	Balance as at 31.12.2015
Share capital issued and paid (PLN 000s)	58 752	61 780
Number of shares	58 752 198	61 779 619
Nominal value per share (PLN)	1,00	1,00
Nominal value of all shares (PLN 000s)	**58 752**	**61 780**

Reserve capital

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Balance at the beginning of period	**926 209**	**577 621**
Decrease due to redemption of shares (Note 28)	(26 960)	(3 692)
Transfer of previous year profit to the reserve capital	121 463	352 281
Balance at the end of period	**1 020 712**	**926 209**

Own shares

As at 31 December 2015 MCI Capital S.A. had 30,788 own shares worth PLN 150 ths., which was dedicated to settle remuneration for 2015 for President of the Company, Mr Tomasz Czechowicz, in accordance with Resolution 4 of the Supervisory Board of the Company of 24 September 2015.

In 2016 the Company implemented the Share Buyback Program in order to its redemption. During 2016, the Company acquired a total of 3,027,421 own shares. Shares were redeemed in December 2016. As at the balance sheet date, the Company did not hold any own shares.

16. Shareholding structure

Major shareholders of the Company as at 31 December 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
Tomasz Czechowicz	312 000	0.53%	312 000	0.53%
MCI Management Sp. z o.o.*	32 278 974	54.94%	32 278 974	54.94%
Quercus Towarzystwo Funduszy Inwestycyjnych S.A.	3 154 209	5.37%	3 154 209	5.37%
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	3 068 411	5.22%	3 068 411	5.22%
Pozostali	19 938 604	33.94%	19 938 604	33.94%
	58 752 198	**100.00%**	**58 752 198**	**100.00%**

*Company controlled by Tomasz Czechowicz (previously Alternative Investment Partners Sp. z o.o.).

Major shareholders of the Company as at 31 December 2015

	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
Tomasz Czechowicz	1 429 486	2.31%	1 429 486	2.31%
MCI Management Sp. z o.o.*	31 455 196	50.92%	31 455 196	50.92%
Quercus Towarzystwo Funduszy Inwestycyjnych S.A.	3 632 016	5.88%	3 632 016	5.88%
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	2 730 000	4.42%	2 730 000	4.42%
Pozostali	22 532 921	36.47%	22 532 921	36.47%
	61 779 619	**100.00%**	**61 779 619**	**100.00%**

*Company controlled by Tomasz Czechowicz (previously Alternative Investment Partners Sp. z o.o.).

17. Liabilities related to bonds

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
The value of the liability at the date of issue at face value	351 950	231 800
The value of costs related to the issue	(5 297)	(4 385)
Carrying value of liability as at issue date	**346 653**	**227 415**
Equity component (without deferred tax)*	(578)	(578)
Liability component as at issue date	**346 075**	**226 837**
Interest accrued - costs YTD	38 398	23 788
Interest paid	(33 611)	(20 069)
Repayment	(84 800)	-
Carrying value of liability as at balance sheet date	**266 062**	**230 556**
Non-current part:	221 315	137 240
Current part:	44 747	93 316
	266 062	**230 556**

*applies to series G1 shares

Bonds issued by MCI Capital S.A.

The following tables show the status of liabilities from the issue of bonds, the date of redemption and the balance of interest paid and interests of particular bonds.

The H1-H3 bonds series were redeemed by the Company in 2016 according to maturity date.

Series of bonds	Date of allocation	Date of redemption	Number of bonds	Interest	Nominal value of bonds	Interest paid for year 2016	Interest paid for year 2015
					000' PLN	000' PLN	000' PLN
H1 series	03.04.2013	11.04.2016	36 000	WIBOR.6M + 4,5%	36 000	7 503	6 332
H2 series	26.06.2013	28.06.2016	18 800	WIBOR.6M + 4,5%	18 800	3 828	3 221
H3 series	19.12.2013	19.12.2016	30 000	WIBOR.6M + 4,5%	30 000	5 958	4 081
G1 series*	21.03.2014	21.03.2018	50 000	WIBOR.6M + 3,9%	50 000	7 494	4 652
I1 series	17.10.2014	17.10.2017	31 000	WIBOR.6M + 3,9%	31 000	3 546	1 783
J1 series	11.12.2015	11.12.2018	66 000	WIBOR.6M + 3,9%	66 000	3 743	-

K series	14.06.2016	24.06.2019	54 500	WIBOR.6M + 3,9%	54 500	1 538	-
M series	23.12.2016	20.12.2019	25 000	WIBOR.6M + 3,9%	20 650	-	-
N series	29.12.2016	29.12.2021	45 000	6,5%	45 000	-	-
					351 950	**33 611**	**20 069**

*The series of convertible bonds of MCI Capital S.A. The conversion price as at the date of publication of these financial statements amounted to PLN 12.73.

18. Trade and other payables

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Trade payables	1 215	443
Payables to related entities	882	94
Tax liabilities*	1 216	5
Social security and other burdens liabilities	55	23
Other liabilities	740	34
	4 108	**599**

*The item consists mainly of tax capital group corporate income tax liability.

19. Bills of exchange

As at 31.12.2016 the Company had the following bills of exchange towards the following companies:

	Nominal value PLN'000	Interests PLN'000	Interest rate % per year	Total PLN'000
Cash Ventures Sp. z o.o.*	16 000	31	4.81%	16 031
	16 000	**31**	**-**	**16 031**

*The portfolio company of MCI.CreditVentures FIZ 2.0. The bill of exchange was repaid by MCI on March 15, 2017.

As at 31.12.2015 the Company had no bills of exchange.

20. Provisions

	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Provisions for the costs of litigations*	11 466	11 466
Provisions for bonuses and holidays	221	96
Other provisions	170	188
	11 857	**11 750**

*The provision was set up in connection with the cost of the litigation concerning damages for the bankruptcy of JTT. For details, see **Note 26 *"Contingent assets and liabilities"***.

21. Financial assets and liabilities measured at fair value

The Company discloses at fair value the following components of financial assets and liabilities:

Financial assets designated as measured at fair value through profit/loss at initial recognition:

Investments in shares in subsidiaries, associated entities and other entities which do not run investment operations, as well as investment certificates of investment funds and derivatives are recognised at fair value at initial recognition with changes in fair value disclosed in profit/loss.

The method of shares measurement depends on the type of available source information used in the measurement. For entities the shares of which are not quoted on the active market, the fair value is determined on the basis of measurement techniques commonly applied by market participants. The presumptions of measurement techniques are not based on information coming from the active market, but indicate best the fair value of these entities.

The Company classifies the principles of fair value measurement using the hierarchy below which reflects the importance of source data applied during measurements:

- **Level I** - financial assets/ liabilities measured directly based on prices quoted on the active market.
- **Level II** - financial assets/ liabilities measured with measurement techniques based on information coming from the active market or market observations.
- **Level III** - financial assets/ liabilities measured with techniques commonly applied by market participants. The presumptions of measurement techniques are not based on information coming from the active market.

The table below presents a classification to the relevant measurement level:

	Balance as at 31.12.2016		Balance as at 31.12.2015	
	Level	Measurement method	Level	Measurement method
Investments in subsidiaries				
MCI Fund Management Sp. z o. o.	3	Adjusted net assets	3	Adjusted net assets
MCI Fund Management Sp. z o. o. II MCI.PrivateVentures S.K.A.	3	Adjusted net assets	3	Adjusted net assets
MCI Fund Management Sp. z o. o. IV MCI.PrivateVentures S.K.A.	3	Adjusted net assets	3	Adjusted net assets
Investments in associates				
Private Equity Managers S.A.	1	Price quoted on the active market (WSE)	1	Price quoted on the active market (WSE)
Investment certificates				
Investment certificates Helix Ventures Partners FIZ	3	Net Asset Value (NAV)	3	Net Asset Value (NAV)
Investment certificates Internet Ventures FIZ	3	Net Asset Value (NAV)	3	Net Asset Value (NAV)
Investment certificates MCI.CreditVentures 2.0 FIZ	3	Net Asset Value (NAV)	3	Net Asset Value (NAV)
Derivatives				
Embedded derivative on investment certificates Internet Ventures FIZ	3	According to the contractual terms (valuation of the option giving the MCI a guarantee of return on the invested funds)	3	According to the contractual terms (valuation of the option giving the MCI a guarantee of return on the invested funds)
Embedded derivative on investment certificates Helix Ventures Partners FIZ	3	According to the contractual terms (valuation of the option giving the MCI a guarantee of return on the invested funds)	3	According to the contractual terms (valuation of the option giving the MCI a guarantee of return on the invested funds)

In the Company's opinion, measurement of investment certificates at the net asset value ("NAV") and measurement of investments in subsidiaries at the value of adjusted net assets is the best reflection of the fair value of these investments.

The Company makes transfers between levels of the fair value hierarchy when the change of conditions results in fulfilment of non-fulfilment of the criteria for classification to a particular level. The Company makes transfers between levels of the fair value hierarchy in the interim period in which the event giving rise to the change of conditions occurred. The Company applies a consistent approach to transfers to and from different levels of the fair value hierarchy.

Portfolio companies are measured by different valuation methods, depending on the stage of development of the company, the nature of the business and the industry in which the company operates (comparative methods, invested funds, recent comparable transactions, market prices). The adopted valuation methods are the best reflection of the fair value of individual companies.

Measurement of financial instruments measured at fair value in the statement of financial position

Type of the financial instrument	Method of measurement of the financial instrument	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Non-current assets			
Investment certificates	Measured at fair value through profit/loss	113 945	185 446
Investments in subsidiaries	Measured at fair value through profit/loss	1 083 838	1 095 921
Investments in associates	Measured at fair value through profit/loss	21 389	41 726
Investments in other entities	Measured at fair value through profit/loss	7	7
Derivatives	Measured at fair value through profit/loss	2 110	1 784

These assets were measured at fair value through profit or loss as designated for measurement by the profit and loss.

Measurement of financial instruments which are not measured at fair value in the statement of financial position

Type of the financial instrument	Method of measurement of the financial instrument	Balance as at 31.12.2016 PLN'000	Balance as at 31.12.2015 PLN'000
Non-current assets			
Loans granted	Measured at amortised cost	205	1 302
Current assets			
Trade and other receivables	Measured at nominal value	1 960	1 558
Receivables from bills of exchange	Measured at amortised cost	26 063	4 705
Loans granted	Measured at amortised cost	871	984
Cash and cash equivalents	Measured at nominal value	81 262	60 326
Non-current liabilities			
Received loans	Measured at amortised cost	107	148
Liabilities on bonds	Measured at amortised cost	221 315	137 240
Current liabilities			
Trade and other payables	Measured at nominal value	4 108	599
Liabilities on bonds	Measured at amortised cost	44 747	93 316
Bills of exchange	Measured at amortised cost	16 031	-
Received loans	Measured at amortised cost	41	41

The Company recognizes that for these financial instruments not measured at fair value in the statement of financial position, the fair value of these financial instruments is similar to their book value.

Mainly bonds obligations are classified to this category, i.e. bonds which are based on variable interest rate (WIBOR + margin). It allows us to consider that the amortized cost on this basis is the best reflection of the fair value.

22. Employee Benefits

As regards employee benefits, the statement of comprehensive income includes the following amounts:

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Short-term employee benefits	1 417	1 656
Social security	34	35
Remuneration paid in shares and option programmes*	407	1 200
Other employee benefits	75	68
	1 933	**2 959**

*This item in 2016 includes:
- remuneration in shares: PLN 357 ths,
- settlement of the incentive programme for 2015: PLN 50 ths.

This item in 2015 includes:
- remuneration paid in shares: PLN 636 ths,
- incentive program for 2015: PLN 78 ths,
- settlement of the incentive programme for 2014: PLN 486 ths.

Remuneration of key personnel

	For the period: from 01.01.2016 to 31.12.2016 PLN'000	For the period: from 01.01.2015 to 31.12.2015 PLN'000
Management Board		
Short-term employee benefits	671	769
Settlement of incentive programmes	34	71
Remuneration paid in shares	357	1 025
Lump-sum for the use of cars	54	24
	1 116	**1 889**
Supervisory Board		
Short-term employee benefits	61	159
	61	**159**

Employment / function

	Balance as at 31.12.2016 Number of employees	Balance as at 31.12.2015 Number of employees
Management Board	4	4
Supervisory Board	6	6
Operational staff	9	7
	19	**17**

Advances paid to the members of the Management Board

The Company did not pay advances to members of the Management Board in 2016 and 2015.

Loans granted to members of the Management Board

The Company did not pay loans to members of the Management Board in 2016 and 2015.

23. Share-based incentive programmes

The incentive program for members of the Management Board and Key Executives

With resolution of the Supervisory Board of 24 September 2015 and resolution of the Management Board of 26 October 2015 MCI Capital S.A. adopted Option Programme for Members of the Management Board and Key Executive (“eligible persons”) for 2015. The Option Programme is available to persons authorized by law to receive additional remuneration in the form of the right to purchase subscription warrants from the Company to purchase shares of the Company in the number and subject to the conditions specified in the resolution of the Supervisory Board/Management Board.

According to the recommendation of the Company's Management Board, the Supervisory Board decided to settle the program in cash instead of increasing the capital and settling the program in the form of issuing subscription warrants convertible into the Company’s shares.

In connection with the incentive programme addressed to entitled persons, PLN 78 ths was recognized in 2015, including PLN 71 ths for Members of the Management Board and PLN 7 ths for Key Executives. The total value of the program amounted to PLN 128 ths. Therefore, as a result of the settlement of the program in 2016, the Company included the additional costs of PLN 50 ths, including PLN 35 ths for Members of the Management Board and PLN 15 ths for Key Management.

The Company did not adopt the Option Program for Members of the Management and Key Personnel for 2016.

The incentive program for the President of the Management Board

On June 28, 2016, the Ordinary General Meeting of the Company decided to issue subscription warrants dedicated to Mr. Tomasz Czechowicz in connection with execution of the remuneration program adopted by the Company's Supervisory Board by Resolution No. 1 of May 25, 2016 (the "Remuneration Program").

Within the Remuneration Program, the Company will issue no more than 100,446 registered C-series subscription warrants with the right to subscribe for no more than 100,446 ordinary shares of series A1 issued by the Company. The proposed purchase of warrants will be addressed exclusively to Mr. Tomasz Czechowicz („entitled person”), while the issue of warrants will be in accordance with the Remuneration Program. Each subscription warrant will entitle to take 1 share. The issue price of shares acquired by the exercise of warrants will amounted to PLN 1.00 per share. Mr. Tomasz Czechowicz will be able to acquire shares by December 31, 2020, on condition that he remains on the position of the member of the Management Board of the Company for the period of acquiring the right to take up the warrants. The first period of acquiring rights means the period from January 1, 2016 to December 31, 2016, during which the entitled person acquires the right to 33,482 subscription warrants. The second vesting period is the period from January 1, 2017 to December 31, 2017, during which the entitled person acquires the right to 33,482 subscription warrants. Third period of acquiring rights means the period from January 1, 2018 to December 31, 2018, during which the entitled person acquires the right to 33,482 subscription warrants (a total of 100,446 warrants). The cost of PLN 357 ths was recognised in the Company’s books as regards the Remuneration Program in 2016.

24. Remuneration of the entity authorised to audit financial statements (gross)

	For the period: from 01.01.2016 to 31.12.2016 PLN’000	For the period: from 01.01.2015 to 31.12.2015 PLN’000
Audit of annual financial statements	160	166
Review of half-year financial statements	74	80
Other services	-	1
	234	**247**

25. Dividend

The Management Board did not adopt a resolution to pay a dividend for 2016.

In accordance with Resolution 1 of 7 April 2016, the Management Board of the Company decided to appropriate the profit after tax earned in 2015 at PLN 121,463 ths to the share premium of the Company in full.

At present, because of the bond covenants (in connection with the issue of series I1 bonds) it is not possible to pay out the dividend until 17 March 2017. For this reason in 2017 the Company will enforce the buy back dividend policy.

26. Contingent assets and liabilities

JTT damages

On 2 October 2006 attorneys of MCI Capital S.A. filed an action with the Circuit Court in Wrocław against the State Treasury for PLN 38.5m for the losses incurred and benefits lost by MCI Capital S.A. as the shareholder of JTT Computer S.A., resulting from illegal actions of the tax authorities. Following the binding judgement of the Appellate Court of 31 March 2011, MCI received a compensation of PLN 46.6m (including interest). The Treasury appealed against the judgment of the Court of Appeal and filed a cassation appeal to the Supreme Court. On 26 April 2012 the Supreme Court dismissed the judgment favourable to MCI and referred to case to be reviewed again by the Appellate Court. On 17 January 2013 the Appellate Court upheld the appealed judgment and re-awarded the JTT compensation to MCI.

The State Treasury filed a cassation appeal to the Supreme Court against the second judgment of the Appellate Court in Wrocław of 17 January 2013. Following the cassation appeal, on 26 March 2014 the Supreme Court repealed the judgment of the Appellate Court of 17 January 2013 and referred the case to be reviewed again by the Appellate Court in Wrocław.

In July 2014 the first hearing before the Court of Appeal took place, which allowed evidence of supplementary hearing of witnesses. In March 2015 another hearing before the Court of Appeal took place during which subsequent witnesses were heard.

At the moment of preparing these financial statements, the proceedings are pending and the case is being reviewed by the Court of Appeal. The court obtained evidence from personal evidence, then asked the team of experts to prepare a supplementary written opinion from a hearing of the expert and specify the dates for that opinion. The experts expressed their readiness to draw up a supplementary opinion. On March 4, 2016, the experts informed the Court that the issue of the opinion would require the involvement of a panel of experts close to that of the first opinion, i.e. at the stage of the first instance court, and that the issue of the opinion would need the proceedings to be reexamined. Until the date of this report, the expert opinion has not yet been issued. In January 2017, the court addressed to the experts a letter urging them to submit an opinion. In response, the experts contacted the Court by stating that they would issue an opinion by 10 February 2017. The Company has no further information until the date of publication of this report.

It should be noted that the final judgment of the common court was issued in this case and the judgment was made.

Corporate income tax – JTT compensation

On 20 June 2011 MCI applied to the Minister of Finance for an interpretation regarding the income tax on the compensation obtained from the State Treasury for the impairment of the JTT shares which belonged to MCI. The Company believes that the compensation obtained from the State Treasury is not taxable income. In the individual interpretation of 14 September 2011, the tax authority found the Company's position invalid, so the Company appealed to the Voivodeship Administrative Court against the interpretation. In its judgment of 12 November 2012, the Voivodeship Administrative Court dismissed the appeal and stated, among others, that compensation granted under provisions of the civil law benefited from the exemption from taxation by the end of 1998, when the provision was deleted. In January 2013 the Company filed a cassation appeal against the judgment of the Voivodship Administrative Court to the Supreme Administrative Court.

After the hearing on 9 April 2015 the Supreme Administrative Court issued a judgment which dismissed the cassation appeal. The ruling is final. After receiving written justification for the judgment of the Supreme Administrative Court, a decision was made to bring an appeal complaint to the Constitutional Court on the unconstitutional nature of taxation of compensation obtained from the State Treasury. The constitutional appeal was lodged on 3 November 2015. On April 26, 2016, the Constitutional Court refused to proceed with a constitutional complaint. As a result, national procedural rules were exhausted and the possibility of questioning the operation of the State Treasury was exhausted.

On 30 December 2016 MCI applied to the Head of the First Mazovian Tax Office in Warsaw for the declaration of overpayment in corporate income tax for the tax year 2011. In the correction of the CIT-8 declaration for 2011, the company has shown an overpayment of PLN 5.3 m. As at the date of preparation of this report, the company is awaiting resolution in this case.

In the opinion of the Management Board, compensation received from the State Treasury is not a financial increment and therefore does not meet the definition of income under the Corporate Income Tax Act and should therefore not be treated as a taxable revenue. In addition, it should be noted that, in fact, the State Treasury reduced the compensation paid to the Company for the value of the Company's tax paid, whereas the damage suffered should, in the opinion of the Company's Management Board, be repaired entirely.

As a result, the Company decided to file a correction of the CIT declaration in order to claim a refund of the tax paid on the compensation it owed from the State Treasury.

These financial statements do not include any amounts of overpayments in corporate income tax for the 2011 tax year. This will only occur when the refund requested is practically certain to receive.

Counterclaim – claims for compensation Anna Hejka / MCI

On 2 April 2011 Anna Hejka demanded that the Company pays PLN 30m to her as the claim for compensation related to the services provided by Anna Hejka in connection with the Issuer's investment in ABC Data S.A. Anna Hejka bases her claims against the Company on the contractual obligations not fulfilled by the Issuer and the tort (unlawful) actions, which according to her letter, resulted in forfeiture of her success fee.

On 31 August 2011 the Company brought an action for payment of PLN 250,524.00 with statutory interest on the amounts and dates stated in the statement of claim by Anna Hejka. The amount claimed in the statement of claim consists of:
- PLN 107,348.83 of the advance payment towards remuneration and expenses, never returned to the Company and never settled,
- PLN 143,127.60 of a contractual penalty payable to the Company under the agreement of 2006 for the shares passed to her as an advance payment and not returned.

On 31 August 2011 the Company filed an action for obligating Anna Hejka to submit a statement of will and a motion to secure the non-pecuniary claim before commencing the proceedings. The statement of will required from Anna Hejka was to include her commitment to transfer 46,470 of series "H" shares of the Issuer to Alternative Investment Partners Sp. z o.o. The subject of securing the claim was to be the decision of the court prohibiting Anna Hejka to transfer or encumber 46,470 of series "H" shares entered into her securities account.

On 10 February 2012 Anna Hejka filed a counterclaim to the Circuit Court in Płock for adjudicating PLN 15,803,295 in her favour from MCI Capital S.A. as compensation claims concerning the bonus, performance of the function of the Member of the Management Board, incentive programmes and other issues related to the contract between the parties; in the further course of the proceedings, the amount of the counterclaim against the Company was limited to PLN 12,163,470.

On 9 July 2015 the Circuit Court in Płock issued a judgment in which the Court:
- dismissed the proceedings under the main action for the amount of PLN 143,127.60 including statutory interest,
- adjudicated that Anna Hejka pays PLN 107,348.83 including statutory interest to the Company,
- dismissed the action in the remaining scope,
- adjudicated that the Company pays to Anna Hejka PLN 3,617 of the court fees resulting from the main action,
- adjudicated that Anna Hejka pays to the Company PLN 9,427.25 of the court fees resulting from the main action,
- dismissed the proceedings from the counterclaim over the amount of PLN 12,163.470,
- dismissed the counterclaim in the remaining scope,
- adjudicated that Anna Hejka pays to the Company PLN 21,617 of the court fees resulting from the counterclaim.

Anna Hejka appealed against the judgment in the part which dismissed the counterclaim at PLN 1,007,400. The Company appealed against judgment in the part which dismissed the main action with regard to interest (PLN 2,537) and the ruling on the litigation costs resulting from the main action.

Consequently, until preparation of these financial statements, the judgment is valid for points 1, 2 and 6, and with regard to point 7 it is valid for dismissal of the counterclaim in the amount of PLN 11,156,070 (the difference between PLN 12,163,470 and PLN 1,007,400). The case is at the stage of appeals proceedings. The appeal date is set to take place on 18 March 2016.

On April 1, 2016, the Court announced a judgment in which the Company appeal against the judgment of the District Court in Płock on July 9, 2015 was taken into account and Anna Hejka's appeal against the aforementioned judgment of the District Court in Płock was dismissed. The judgment of the Court of Appeal in Łódź is final. (Annie Hejka is entitled to a cassation appeal from the judgment). This means that all claims of Anne Hejki filed against the Company by mutual action initially amounting to PLN 15,803,295 (then limited to PLN 12,163,470 and at the stage of appellate proceedings up to PLN 1,007,400) were legally dismissed.

Anna Hejka has not filed a cassation appeal against the judgment of 1 April 2016. The proceedings in this case can be considered as finally closed.

Administrative proceedings initiated by the Financial Supervision Authority (KNF)

On 3 November 2016, the Polish Financial Supervision Authority initiated proceedings against MCI concerning the imposition of a fine against the suspicion of breach by the Company of the provisions of the Act of July 29, 2015 on the offer and conditions for introducing financial instruments to organized trading and on public companies. The proceedings were initiated in connection with the acquisition by the Company in 2010 Travelplanet.pl S.A. shares.

Until the date of publication of this report, the Company has not received any information about any penalty that would be imposed on the Company. MCI's Management is not able to reliably estimate the amount of possible penalty, so the Company did not make any provisions for this proceedings in the Company’s books in 2016.

27. Suretyship and guarantees

Guarantee of the loan granted by Raiffeisen Bank Polska S.A. for the benefit of MCI Venture Projects Sp. z o.o. VI SKA

On 2 April 2015 MCI Capital S.A. guaranteed a loan of PLN 30,000,000 granted by Raiffeisen Bank Polska S.A. for the benefit of MCI Venture Projects Sp. z o.o. SKA by signing “Guarantee repayment of all liabilities”. Under the Guarantee, the Company is obligated to repay to the bank each amount of up to PLN 45,000,000. The guarantee is valid until 1 October 2018.

Guarantee of the loan granted by Alior Bank S.A. for the benefit of MCI.CreditVentures 2.0

On 23 June 2015 MCI Capital S.A. guaranteed a revolving loan of PLN 5,000,000 granted by Alior Bank S.A. to MCI CreditVentures 2.0. The guarantee covers liabilities of MCI CreditVentures 2.0 related to the loan agreement of 19 June 2015 if MCI CreditVentures 2.0 failed to repay such liabilities when due.

Guarantee of the loan granted by Alior Bank S.A. for the benefit of MCI.PrivateVentures FIZ

On 31 July 2015 MCI Capital S.A. guaranteed a loan granted under the revolving loan agreement in the loan account of 11 September 2014 amended with Annex 1 of 1 October 2014 and Annex 2 of 29 July 2015 for PLN 41,000 ths to MCI MCI PrivateVentures Closed-End Investment Fund with the separated EuroVentures 1.0 sub-fund. On 7 March 2016 the Company signed the declaration on establishing a writ of execution pursuant to Art. 777 § 1 (5) of the Civil Code up to PLN 82,000 ths. The bank may request that the declaration be made enforceable by 19 September 2020.

On November 2, 2016, the annex to the loan agreement was signed, on the basis of which the maximum loan value was reduced from PLN 41,000 ths to PLN 30,000 ths. On this basis, the maximum amount of surety from the level of PLN 82,000 ths was also reduced up to PLN 60,000 ths.

Guarantee of the loan granted by Alior Bank S.A. for the benefit of MCI PrivateVentures FIZ

On 31 July 2015 MCI Capital S.A. guaranteed a loan granted by Alior to MCI PrivateVentures Closed-End Investment Fund with the separated EuroVentures 1.0 sub-fund for liabilities resulting from the loan of EUR 10,000 ths granted under the revolving loan agreement in the loan account. On 31 July 2015 the Company signed the declaration on establishing a writ of execution pursuant to Art. 777 § 1 (5) of the Civil Code up to EUR 20,000 ths. The bank may request that the declaration be made enforceable by 28 July 2021.

Guarantee of the loan granted by Alior Bank S.A. for the benefit of MCI PrivateVentures FIZ

On 31 July 2015 MCI Capital S.A. guaranteed a loan granted by Alior to MCI PrivateVentures Closed-End Investment Fund with the separated TechVentures 1.0 sub-fund for liabilities resulting from the loan of EUR 10,000 ths granted under the revolving loan agreement in the loan account. On 31 July 2015 the Company signed the declaration on establishing a writ of execution pursuant to Art. 777 § 1 (5) of the Civil Code up to EUR 20,000 ths. The bank may request that the declaration be made enforceable by 28 July 2021.

Financial guarantee under bonds obligations issued MCI Venture Projects Sp. z o.o. VI SKA

On March 10, 2016, the Company issued a financial guarantee in connection with the issuance of bonds by MCI.Venture Projects Sp. z o.o. VI SKA. The guarantee has been granted under Czech law. The guarantee secures the following obligations of the Issuer:

- to pay the nominal value and interests relating to bonds;
- for unjust enrichment with respect to the bondholder due to the invalidity or cancellation of bonds;
- for sanctions caused by improper or untimely payment of bonds.

In connection with the additional issue of bonds on October 11, 2016, the total nominal value of the bonds is CZK 699,000,000 (approximately PLN 110,651,700 at the CZK/PLN exchange rate of October 11, 2016, i.e. 0.1583). Interests of bonds is determined by the terms of the bonds issue. Interests are calculated on a variable interest rate based on the 6M PRIBOR reference rate and increased by a margin of 3.8% per annum. The guarantee is a security of the aforementioned commitments up to the amount not exceeded 130% of the total nominal value of the outstanding bonds issued up to April 8, 2021. The maximum value of these obligations to be repaid by the Guarantee (after issue on October 11, 2016) not exceeds CZK 908,700,000 (approximately PLN 143.847.210 assuming that 1 Czech crown equals PLN 0.1583).

The guarantee was granted until the date of full satisfaction of the obligations secured by the Guarantee, but no longer than until April 8, 2022.

Under the granted financial guarantee, the Company receives a remuneration of 1% per annum on the collateral value, which is approximately PLN 1.4 million per annum.

28. Major events during the financial year 2016

New Trilateral Agreement

On 29 January 2016 the trilateral agreement (“New Trilateral Agreement”) concluded on 23 December 2014 among PEM, MCI Capital Towarzystwo Funduszy Inwestycyjnych S.A. (“TFI”) and MCI Capital S.A. (formerly MCI Management S.A.) came into force and governs rules of cooperation among the parties to the Agreement on the subject of the Agreement. Thus, under the agreement of 23 December 2014 concluded among PEM, MCI and TFI, from the effective date of the New Trilateral Agreement the trilateral agreement of 12 November 2013 among PEM, MCI and TFI was terminated (“Existing Trilateral Agreement”).

The subject of the New Trilateral Agreement is as follows:

1. maintain, for the duration of the New Trilateral Agreement, the total investment by MCI and MCI’s subsidiaries (as defined in the “Act on the Offering”) in the investment certificates of investment funds managed by TFI (“Fund”), existing as at the execution date of the New Trilateral Agreement,

2. procure that for the duration of the New Trilateral Agreement the investment portfolio of the Funds is managed solely by PEM, MCI Asset Management Spółka z ograniczoną odpowiedzialnością Spółka jawna or other PEM’s subsidiaries as defined in the “Act on the Offering”,

3. commitment of MCI that for the duration of the New Trilateral Agreement, MCI and MCI’s Subsidiaries shall vote, as the participant(s) of the meeting of investors or member(s) of the investor board of each of the Funds (as long as this lies within competencies of the meeting of investors or the investor board of the Fund) against:

    a. changes to by-laws of the Funds resulting in decrease in the TFI’s remuneration for portfolio management of the MCI.PrivateVentures Closed-End Investment Fund and MCI.CreditVentures 2.0 Closed-End Investment Fund that is charged by TFI on the net asset value of the aforementioned Funds (“Remuneration”) in the manner which prevents charging the Remuneration in the amount specified in the New Trilateral Agreement,

b. merger, conversion and liquidation of the aforementioned Funds, as well as changes in by-laws of the Funds resulting in the take-over of management of such Funds by another investment funds unless such a merger, conversion or liquidation or a change in by-laws does not lead to a reduction in the remuneration in the manner which prevents charging of Remuneration in the amount specified in the New Trilateral Agreement or replacement of PEM, MCI Sp. j. or other PEM's Subsidiaries with another entity as the manager of the Fund's investment portfolio. In the New Trilateral Agreement, the parties agreed in detail on the method of calculating the Remuneration. The amount of fixed remuneration for management of the investment funds, in accordance with the New Trilateral Agreement, shall be fixed at least at the following level:
   i. for MCI.EuroVentures 1.0 Sub-fund: 2% of the net asset value of that sub-fund per annum,
   ii. for MCI.TechVentures 1.0 Sub-fund: 2.75% of the net asset value of that sub-fund per annum,
   iii. for MCI.CreditVentures 2.0. FIZ fund: 1% of the net asset value of that fund per annum.

   The amount of variable remuneration for management of the investment funds, in accordance with the New Trilateral Agreement, will depend on the increase in the net asset value of the investment fund or sub-fund respectively, taking into account the payments of the income and revenues.

4. commitment of the parties to the New Trilateral Agreement that after 31 October 2018 they shall negotiate in good faith and procure to agree on the new rules of determining the remuneration for management of MCI.PrivateVentures Closed-End Investment Fund and MCI.CreditVentures 2.0 Closed-End Investment Fund,

5. MCI is guaranteed the right for MCI or another entity nominated by MCI to take up 50% of investment certificates of the first issue, issued by each investment funds established by TFI after the effective date of the New Trilateral Agreement.

The Company published details of the "New Trilateral Agreement" in *Current Report No 8/2016*.

In connection with implementation of the New Trilateral Agreement, the following agreements of additional services were signed for major investors of the Fund, i.e.:

1. The agreement between MCI Capital TFI S.A. and MCI Fund Management Sp. z o.o. (subsidiary of MCI) – a participant of MCI.EuroVentures 1.0 sub-fund separated within MCI.PrivateVentures FIZ concluded on 29 January 2016.

Under the agreement, MCI Fund Management Sp. z o.o. is entitled to receive an additional payment provided that in a given calendar year it holds such a number of investment certificates that the average net asset value of the Sub-Fund attributable to the investment certificates held by the company in that period is not lower than PLN 500m.

2. The agreement between MCI Capital TFI S.A. and MCI Fund Management Sp. z o.o. – a participant of MCI.TechVentures 1.0 sub-fund separated within MCI.PrivateVentures FIZ concluded on 29 January 2016.

Under the agreement, MCI Fund Management Sp. z o.o. is entitled to receive an additional payment provided that in a given calendar year it holds such a number of investment certificates that the average net asset value of the Sub-Fund attributable to the investment certificates held by the company in that period is not lower than PLN 300m.

3. The agreement between MCI Capital TFI S.A. and MCI Capital S.A – a participant of MCI.CreditVentures 2.0 concluded on 29 January 2016.

Under the agreement, MCI is entitled to receive an additional payment provided that in a given calendar year MCI holds such a number of investment certificates that the average net asset value of the Fund attributable to the investment certificates held by the Company in that period is not lower than PLN 70m.

Under the agreements of additional payments to the aforementioned Fund Participants, Participants are entitled to:

a) an additional payment in the amount of the difference between the fee currently charged by MCI Capital TFI S.A. for managing the Funds and the rate of 1.08% p.a. for all new series of investment certificates to be taken up by MCI Capital S.A. or MCI Fund Management Sp. z o.o. in MCI.PrivateVentures FIZ and MCI.CreditVentures FIZ above the threshold that is the equivalent of PLN 1,154m,

b) an additional payment in the amount of the difference between the fee currently charged by MCI Capital TFI S.A. for managing the Funds and the rate of 1.08% p.a. on the number of existing surplus investment certificates of a given series of MCI.PrivateVentures FIZ and MCI.CreditVentures FIZ certificates over the thresholds specified in the Trilateral Agreement attributable to investment certificates held by MCI (for MCI.CreditVentures FIZ) and Fund Management Sp. z o.o. (for MCI.TechVentures 1.9 and MCI.EuroVentures 1.0 Sub-Funds). The Additional Payment attributable to the existing surplus investment certificates is payable for those days in each settlement period where the total net asset value (with regard to investment certificates which have been paid for in full) of the following investment funds: MCI.PrivateVentures FIZ and MCI.CreditVentures 2.0 FIZ Funds (regardless of the proportion of the net asset value of such investment funds) less the surplus within the meaning of subparagraph 6 exceeds, in a given year, the amount specified for that year in § 4.4 points 1) – 4) of the Trilateral Agreement concluded on 23 December 2014 among the Investment Fund Company, MCI Capital S.A. (formerly known as MCI Management S.A.) and Private Equity Managers S.A.

Additional payments shall be made by the Investment Fund Company from own funds of the Investment Fund Company, including the remuneration charged by the Investment Fund Company for asset management.

Own share repurchase programme

In 2016, the Company implemented the Share Buyback Program in order to share redemption. The legal basis for acquiring the Company's own shares is the resolution No. 5 of the Extraordinary General Meeting of MCI Capital S.A. on November 17, 2015, which was changed on November 14, 2016 by the resolution No. 4 of the Extraordinary General Meeting of MCI Capital S.A. under which the Company was authorized to purchase up to 10,000,000 own shares with a nominal value of PLN 1.00. Authorization to acquire shares was granted for the period up to January 31, 2018.

Within the framework of the Buyback Program, the Company repurchased:

- in January 2016, 593,123 own shares, which constituted 0.96% of the Company's share capital (average purchase price of PLN 10.26);
- In February 2016, 39,877 own shares accounted for 0.06% of the Company's share capital (average purchase price of PLN 10.26);
- In April 2016, 216,068 own shares, representing 0.35% of the Company's share capital (average purchase price of PLN 11.52);
- In May 2016, 49,356 own shares, representing 0.08% of the Company's share capital (average purchase price of PLN 11.10);
- In June 2016, 17,065 own shares, representing 0.03% of the Company's share capital (average unit price of PLN 10.99);
- In December 2016, 2,111,932 own shares, representing 3.42% of the Company's share capital (average purchase price of PLN 9.47), of which 1,055,966 shares were acquired from the market and 1,055,966 shares were purchased from MCI Management Sp. z o.o.

On December 15, 2016, the Company redeemed 3,027,421 own shares (shares bought back in 2016 as part of the implementation of the Buyback Program). As a result of the redemption, the share capital of the Company decreased from PLN 61,779,619 to PLN 58,752,198.

Financial guarantee granted

On March 10, 2016, the Company issued a financial guarantee in connection with the issuance of bonds by MCI Venture Projects VI SKA. Details in **Note 27 *"Sureties and Guarantees"***.

Creation of the Tax Group

On 15 February 2016 MCI Capital S.A. and MCI Fund Management Spółka z o.o. entered into an agreement establishing the Tax Group (“PGK”). The Parties agreed that MCI Capital S.A. would be the dominant entity in the PGK. The financial year of the PGK will be the period from 1 July to 30 June. The first tax year will be the period from 1 July 2016 to 30 June 2017. The agreement was concluded for a period of three consecutive tax years, i.e. from 1 July 2016 to 30 June 2019.

Companies which are members of the PGK bear joint and several liability for corporate income tax payable for the duration of the agreement.

Other events that occurred in 2016 were described in details in the Report of the Management Board on the Company's activities.

29. Major events after the balance sheet date

Own share repurchase programme

In the period from January 1, 2017 to February 17, 2017, the Company continued its Share Buyback Program in order to share redemption, resulting in a total of 1,257,660 shares, i.e.:

- on February 15, 2017, the Company acquired 628,830 own shares, which constituted 1.07% of the Company's share capital; the acquisition of shares took place on the regulated market in connection with the invitation to sell MCI Capital S.A. shares on January 27, 2017, at the price of PLN 8.82 per share;
- On February 17, 2017, the Company acquired 628,830 own shares, representing 1.07% of the Company's share capital (purchase price of PLN 8.82); the acquisition of shares took place as part of the repurchase of shares from MCI Management Sp. z o.o.

As of the publication date of this report, the total number of own shares held by the Company amounts to 1,257,660, which constitutes 2.14% of the Company's share capital.

The legal basis for the acquisition of the Company's own shares is:

- Resolution No. 5 of the Extraordinary General Meeting of MCI Capital S.A. on 17 November 2015 on authorizing the Company to purchase own shares and use of supplementary capital,
- Resolution No. 4/NWZ/2016 of the Extraordinary General Meeting of the Company on November 14, 2016 amending the resolution No. 5 of the Extraordinary General Meeting on November 17, 2015 on the Company's authorization to purchase own shares and use of supplementary capital,
- Resolution No. 1 of the Supervisory Board of MCI Capital S.A. on December 21, 2015 on the approval of the Company's acquisition of own shares and on the approval of the purchase price of own shares,
- Resolution No. 1 of the Supervisory Board of MCI Capital S.A. on January 18, 2016 on the change of the resolution No. 1 of the Supervisory Board of MCI Capital S.A. on December 21, 2015 on the approval of the Company's acquisition of own shares and on the approval of the purchase price of own shares,
- Resolution No. 9 of the Supervisory Board of MCI Capital S.A. on April 11, 2016 on the change of the resolution No. 1 of the Supervisory Board of MCI Capital S.A. on December 21, 2015 on the approval of the Company's acquisition of own shares and on the approval of the purchase price of own shares,
- Resolution No. 2 of the Supervisory Board of the Company dated November 18, 2016 on the consent for the Company's acquisition of own shares and on the approval of the purchase price of own shares,
- Resolution No. 2 of the Management Board of MCI Capital S.A. on January 14, 2016, regarding the determination of the purchase price of the Company's own shares,
- Resolution No. 3 of the Management Board of MCI Capital S.A. on April 7, 2016, regarding the determination of the purchase price of the Company's own shares,
- Resolution No. 2 of the Management Board of the Company on November 17, 2016 on determining the purchase price of the Company's own shares.

Resignation from the function of a Member of the Supervisory Board

On March 9, 2017, the Company received the resignation of the Member of the Supervisory Board, i.e. Mrs. Monika Morali-Majkut resigned from the membership of the Supervisory Board of the Company. The resignation was filed with effect from March 10, 2017.

30. Abbreviated financial information on the MCI investment funds

The subject of MCI investments are closed-end investment funds.

As at 31 December 2016, the Company held:
- 46.34% of investment certificates of MCI.CreditVentures FIZ 2.0,
- 48.02% investment certificates of Internet Ventures FIZ, and
- 50.00% of investment certificates of Helix Ventures Partners FIZ.

In addition, an MCI direct subsidiary, i.e. MCI Fund Management Sp. z o.o. (“MCI FM”) (MCI has 100% of shares in MCI FM) invests in investment certificates of closed-end investment funds.

As at 31 December 2016, the Company held:

- 93.27% of investment certificates of MCI.EuroVentures 1.0 Subfund separated within MCI.PrivateVentures FIZ, and
- 55.44% of certificates investment of MCI.TechVentures 1.0 Subfund separated within MCI.PrivateVentures FIZ.

Investment certificates are measured at fair value. Measurement is based on measurement at fair value of elements of the Fund investments and other assets and liabilities. Any change in the measurement of the aforementioned assets and liabilities is reflected in the net asset value (“NAV”) of each of the Funds, which translates directly to the revaluation of investment certificates.

Below is condensed financial information as at 31 December 2016 concerning investment funds in which MCI and MCI FM have investment certificates (based on reporting measurements of the funds):

Item	Credit Ventures FIZ		Internet Ventures FIZ		Helix Ventures Partners FIZ		Sub-fund MCI.EuroVentures 1.0		Sub-fund MCI.TechVentures 1.0		Total	Total
	31.12.2016	**MCI share**	**31.12.2016**	**MCI share**	**31.12.2016**	**MCI share**	**31.12.2016**	**MCI share**	**31.12.2016**	**MCI share**	**31.12.2016**	**MCI share / FM share**
	100,00%	**46,34%**	**100,00%**	**48,02%**	**100,00%**	**50,00%**	**100,00%**	**91,37%**	**100,00%**	**55,44%**	**100,00%**	
	PLN'000	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**	**PLN'000**
NAV structure:	185 894	86 156	47 898	23 000	9 574	4 787	789 807	721 647	990 248	548 993	**2 023 421**	**1 384 584**
- *Public companies*	7 815	3 621	-	-	-	-	92 246	84 285	55 950	31 019	156 011	118 925
- *Non-public companies*	171 291	79 376	41 272	19 819	9 251	4 626	773 729	706 956	825 931	457 896	1 821 474	1 268 673
- *Cash, including deposits*	7 243	3 356	261	125	341	171	94 676	86 505	2 120	1 175	104 641	91 333
- *Other assets*	127	72	6 492	3 117	42	21	711	650	138 364	76 709	145 736	80 569
- *Liabilities*	582	270	127	61	60	30	171 555	156 750	32 117	17 806	204 441	174 916
Net investment income	4 931	2 285	(1 633)	(784)	(60)	(30)	(24 115)	(22 034)	(32 212)	(17 858)	**(53 089)**	**(38 421)**
Realized and unrealized profit / loss	(718)	(333)	(7 969)	(3 827)	1 657	829	(29 123)	(26 610)	4 254	2 358	**(31 899)**	**(27 582)**
Result from operations for the period	4 213	1 952	(9 602)	(4 611)	1 597	799	(53 238)	(48 644)	(27 958)	(15 500)	**(84 988)**	**(66 004)**

*On November 30, 2016, all shares indirectly held by the MCI.EuroVentures 1.0 subfund of Wirtualna Polska were sold for PLN 390 m (PLN 50 per share). It was the largest such transaction on the WSE in 2016, as well as one of the largest transaction on the Polish capital market.

**Negative measurement of derivative instruments is presented in conjunction with measurement of portfolio companies.

31. Related entities

Information on transactions with related entities as at 31 December 2016

	Ultimate controlling entity	Subsidiaries	Associates	Other related entities*	Total
Investments:					
Investments in subsidiaries	-	1 083 838	-	-	1 083 838
Investments in associates	-	-	21 389	-	21 389
Investment certificates	-	-	-	113 945	113 945
Derivatives	-	-	-	2 110	2 110
Receivables:					
Trade and other receivables	-	1	994	155	1 150
Receivables from bills of exchange	-	22 148	1 009	2 906	26 063
Loans granted	-	205	-	328	533
Liabilities:					
Trade and other payables	-	440	-	442	882
Liabilities on bonds	19 117	-	-	-	19 117
Income and expenses:					
Revaluation of shares	-	(56 058)	(20 337)	-	(76 395)
Revaluation of investment certificates	-	-	-	(10 959)	(10 959)
Revaluation of derivative financial instruments	-	-	-	326	326
Other income on investments	-	-	-	12 080	12 080
Operating expenses	-	-	(6)	(3)	(9)
Revenues from dividends received	-	-	5 053	-	5 053
Financial income	-	166	9	4 401	4 576
Financial expenses	(1 221)	(768)	-	(31)	(2 020)

*As other related entities are presented: all investment funds, portfolio companies under the funds, companies for which PEM is the parent entity, i.e. MCI Capital TFI S.A., PEM Asset Management Sp. z o.o. and indirect subsidiaries of MCI.

Information on transactions with related entities as at 31 December 2015

	Ultimate controlling entity	Subsidiaries	Associates	Other related entities*	Total
Investments:					
Investments in subsidiaries	-	1 095 921	-	-	1 095 921
Investments in associates	-	-	41 726	-	41 726
Investment certificates	-	-	-	185 446	185 446
Derivatives	-	-	-	1 784	1 784
Receivables:					
Trade and other receivables	-	406	64	610	1 080
Receivables from bills of exchange	-	4 705	-	-	4 705
Loans granted	-	1 683	-	-	1 683
Liabilities:					
Trade and other payables	-	-	20	74	94
Liabilities on bonds	18 977	-	-	-	18 977
Income and expenses:					
Revaluation of shares	-	104 066	6 374	-	110 440
Revaluation of investment certificates	-	-	-	22 676	22 676
Revaluation of derivative financial instruments	-	-	-	(7 062)	(7 062)
Other income on investments	-	-	-	-	-
Operating expenses	-	-	(9)	(157)	(166)

Revenues from dividends received	-	-	4 117	-	4 117
Financial income	-	750	-	3 146	3 896
Financial expenses	(1 226)	-	-	(20)	(1 246)

*As other related entities are presented: all investment funds, portfolio companies under the funds, companies for which PEM is the parent entity, i.e. MCI Capital TFI S.A., PEM Asset Management Sp. z o.o. and indirect subsidiaries of MCI.

32. Operating lease agreements

At the balance sheet date, the Company does not operate any fixed assets under operating leases. However, the Company incurs expenses related to leasing space to conduct business. Till August 31, 2016, the Company had an indefinite term of agreement with a period of notice of 1 to 3 months. The total cost of space rent incurred by the Company in the 8 months of 2016 amounted to PLN 95 ths. From September 1, 2016, the Company has a fixed-term lease agreement. For the 12 months of 2015, the Company incurred the cost of 148 ths.

33. Operating segments

The company does not separate operating or geographical segments.

34. Description of material accounting policies

Material accounting policies applied while preparing these financial statements are presented below.

Comparative data

For comparative data presented in the financial statements, the accounting principles identical to information as at and for the twelve months ended 31 December 2016 were adopted.

Going concern

The financial statements of the Company were prepared on the assumption that the Company would continue as a going concern in the foreseeable future comprising a period not shorter than 12 months after the balance sheet date, i.e., after 31 December 2016. As at the date the financial statements are approved, the Management Board of the Company is aware of no facts or circumstances that would pose a threat to the going concern by the Company during 12 months after the balance sheet date as a result of intended or forced discontinuation or material restriction of the existing activities by the Company.

Investment entity

The Company does not consolidate subsidiaries, because it has the status of an individual investment entity as it fulfils the criteria of IFRS 10 par. 27.

The Company meets the criteria for classification as an investment entity as defined in paragraph 27 of IFRS 10, namely:

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis, thus it can be classified as an investment entity.

In accordance with IFRS 10.31, an investment entity does not extend consolidation over its subsidiaries other than the subsidiaries which carry on investment activities. Therefore, investments in subsidiaries which carry on investment activities are fully consolidated. Investments in subsidiaries which do not carry on investment activities are measured at fair value through profit or loss and recognised in the financial result for the period.

The fair value of investments in subsidiaries (which do not carry on investment activities) is calculated on the basis of adjusted net asset value of each of the subsidiaries at the balance sheet date. The adjusted net asset value is determined on the basis of measurement of net asset value of the funds which issue investment certificates in which the subsidiaries invest. The value of investment certificates of these funds, in turn, is based on the fair value measurement of investments in portfolio companies, adjusted for liabilities of the funds.

Investments in subsidiaries

Investments in subsidiaries are measured at fair value through profit or loss and recognised in the financial result for the period in accordance with IAS 27.10. The fair value of investments in subsidiaries (which do not carry on investment activities) is calculated on the basis of adjusted net asset value of each of the subsidiaries at the balance sheet date. The adjusted net asset value is determined on the basis of measurement of net asset value of the funds which issue investment certificates in which the subsidiaries invest. The value of investment certificates of these funds, in turn, is based on the fair value measurement of investments in portfolio companies, adjusted for liabilities of the funds.

Investments in associated entities

An associate is an entity over which the investor has significant influence. A significant influence is the ability to participate in decision-making on financial and operating matters of the entity in which the investment was made, but at the same time it does not imply maintaining control or joint control over the policy.

In line with IFRS 27.11 MCI measures its investments in associated entities or joint ventures at fair value through profit and loss by the financial result in line with IFRS 9.

Measurement of investments in associated entities at fair value is disclosed in the financial statements in line with IFRS 27.11.

Measurement of investments in associated entities at fair value is based on:

- for listed companies – quotations of shares on the public market as at the balance sheet date,
- for companies not listed on the public market:
  a) at fair value of net assets of an associated entity as at the balance sheet date or,
  b) for representative sales transactions of shares of an associated entity in the reporting period – at the value of the share from this sales transaction.

Foreign currencies

As at the balance sheet date financial assets and liabilities denominated in foreign currencies are converted according to the average rate determined by the National Bank of Poland applicable on that day. Profits and losses arising on the currencies translations are disclosed directly in the statement of profit and loss, except for if they arose as a result of measurement of assets and liabilities when changes of fair value are disclosed directly in equity.

General and administrative expenses

General and administrative expenses are the administrative and economic costs connected with the maintenance of the Company and ensuring of its proper functioning. General and administrative expenses include, among others:

- salaries and employee benefits, as well as the costs of social security (this applies to persons employed under an employment contract, mandate contracts or contracts for a specific work),
- costs of third party services,
- depreciation of fixed assets and amortization of intangible assets,
- consumption of materials and energy,
- taxes and fees,
- other costs.

Employee benefits

Amounts of short-term employee benefits, other than those on account of employment termination and capital benefits, are recognised as liabilities, after acknowledging all amounts which have already been paid, and at the same time they are posted as costs of the period, unless the benefit is to be recognised as original costs of the asset.

Employee benefits in the form of paid absences are recognised as liabilities and costs at the moment when employees performed work if the work performed causes an increase of possible future paid absences or at the moment when they occur if there is no connection between work and increase of possible future paid absences.

Share-based payments

Equity compensation plans include shares, share options and other capital instruments issued by an entity, as well as cash payments the value of which depends on the future market price of the entity's shares.

The total amount charged to costs during the period when staff obtains entitlements to realise options is determined on the basis of the fair value of granted options, with exclusion of the effect of potential non-market conditions of obtaining entitlements (e.g. goals to be achieved as regards profitability and sales increase).

Proceeds from realisation of options (less transaction costs directly related to the realisation) are disclosed in the share capital (nominal value) and the share premium from the sales of shares above their nominal value.

Tax

Compulsory charges on the financial result include: the current tax and the deferred tax. The current tax liability is calculated on the basis of the tax result (taxation base) for a given financial year. Tax profit (loss) differs from net accounting profit (loss) due to exclusion of taxable revenues and tax deductible costs in the following periods, as well as items of revenues and expenses which are never subject to taxation. The tax liability is calculated on the basis of tax rates valid in the given financial year.

The deferred tax is calculated using the balance sheet method as the tax to be paid or returned in the future on the differences between the carrying value of assets and liabilities and the corresponding tax values used to calculate the taxation base.

The deferred tax provision is set up on all positive taxable transitional differences, while the deferred tax asset is recognized to the likely value of reducing future taxable profits by recognized negative transitional differences.

No tax asset or liability occurs if the transitional difference occurs as a result of the goodwill or primary recognition of another asset or liability in the transaction which does not affect the tax result or accounting result.

The value of the deferred tax asset is analysed on each balance sheet date. If the expected future tax profits are insufficient to realise the asset or part of that asset, it is written down.

The deferred tax is calculated with tax rates valid when the asset is realised or the liability matures.

The deferred tax is recognised in the income statement, except when it refers to items directly recognised in equity. In the latter case, the deferred tax is also settled directly into equities.

As a result of the creation of the Tax Group, during the Tax Group period the companies forming the Tax Group are obliged to maintain a profitability ratio of at least 3% (profit of revenues ratio) for each tax year.

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

Financial instruments

Assets and financial liabilities are disclosed in the balance sheet at the moment when the Company becomes a party to a binding agreement.

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

Financial assets

The Company classifies the following components of financial assets at fair value through profit/ loss: investments in subsidiaries and associated entities, investment certificates, derivatives.

Investments in subsidiaries and associated entities are measured at fair value through profit/ loss at initial recognition in line with IFRS 10, 28 and 27. The measurement method at fair value depends on the type of available source information applied during the measurement. For entities whose shares are not quoted on the active market, the fair value is determined on the basis of measurement techniques commonly applied by market participants. The presumptions of measurement techniques are not based on information coming from the active market, but indicate best the fair value of these entities.

The fair value of investment certificates is determined based on net asset value of funds.

The fair value of derivatives is determined on the basis of measurements at fair value with the use of available source information.

Changes in fair value of these assets are disclosed in the income statement. Financial assets are disclosed under the following items of the balance sheet:

- investments in subsidiaries,
- investments in associated entities;
- investment certificates,
- derivatives
- cash and cash equivalents,
- trade receivables,
- other financial assets - bills of exchange,
- loans granted.

Financial revenue and expenses

Financial revenue and expenses include interest generated by the particular financial asset or liability and are recognised on the accruals basis, i.e. in the financial year which these relate to.

Impairment of financial assets

As at each balance sheet date the Company evaluates if there is objective evidence for impairment of a financial assets component or a group of financial assets.

For assets disclosed at amortised cost if there is objective evidence that an impairment loss is incurred, the amount of the impairment loss equals the difference between the carrying value of a financial assets component and the current value of estimated future cash flows (exclusive of future losses on uncollected receivables which have not yet been incurred), discounted through applying the primary effective interest rate (i.e. interest rate determined at initial recognition). The impairment amount is disclosed in the income statement.

In the first place the Company assesses if there is objective evidence for impairment of financial assets components which are material as individual components, as well as evidence for impairment of financial assets which are not material as individual assets. Objective evidence for impairment of financial assets components or of a group of assets includes information obtained by a holder of asset components and relating to the following events:

- the issuer or debtor having material financial difficulties,
- not keeping terms of an agreement,
- the lender grants the borrower certain facilities due to the borrower's economic difficulties,
- high probability of the borrower's bankruptcy or other financial restructuring,
- disappearance of an active market for a given financial asset due to financial difficulties.

If a conducted analysis reveals that there is no objective evidence for impairment of a financial asset which was tested individually, regardless of its being material or immaterial, the Company includes this asset to a group of financial assets with a similar credit risk and tests it for impairment jointly. Assets which are tested for impairment individually and for which an impairment loss is recognised, or for which it has been decided that the current loss would not be changed, are not considered for combined evaluation of a group of assets for impairment. If the impairment loss decreases in the following period and this decrease is objectively connected with an event taking place after the recognition of the loss, the loss recognised previously is reversed. The reversal of the impairment loss is disclosed in the income statement in the amount in which the carrying value of the asset did not exceed its depreciated cost/ recoverable amount as at the reversal date.

Investment certificates

Investment certificates are measured at fair value through profit or loss and are recognized in the financial result of the current period. The fair value of investment certificates is the reporting valuation of funds (or official valuation if reporting valuation is not available), i.e. the net asset value of the investment certificates ("NAV per IC") held by the Company. Valuation of investment certificates is made at the frequency specified in the fund’s Statute, but not less than once every three months. It is based on an estimate of the value of the financial instruments in which the fund invests. Individual components of the fund’s investments (shares, derivatives, debt instruments, etc.) are measured at fair value. The revaluation of investment components is made quarterly. Valuation of other assets and liabilities of funds is also carried out at fair value. Therefore, the reporting and official valuation of funds (i.e. NAV per IC) is the best reflection of the fair value of investment certificates.

Cash and cash equivalents

Cash and short-term deposits reported on the balance sheet include cash in bank and cash at hand and short-term deposits with the initial maturity up to three months.

Financial liabilities

After the initial recognition the Company measures financial liabilities at amortised cost with the use of the effective interest rate method. Financial liabilities are disclosed under the following items:
- loans, borrowings,
- bonds,
- bills of exchange,
- trade and other payables.

Profits and losses in measurements of financial liabilities are disclosed in the income statement under financial income and expenses.

Bonds convertible into shares

The Company issued convertible bonds, which are classified as financial liabilities. Convertible bonds at the time of issue are the obligation of the issuer and are recognized in accordance with the rules provided for financial liabilities. Convertible bonds are an instrument of complex – commitment, but also an equity instrument, containing a conversion option into shares of the parent company. Upon initial recognition of the bond, the liability component and the equity component must be individually separated. The sum of the carrying amounts of: the liability and equity components is equal to the fair value that would be ascribed to the instrument as a whole. Upon initial recognition, first place the carrying value of the liability component is determined by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component is then determined by deducting the fair value of the financial liability from the fair value of the complex financial instrument as a whole. Due to the fact that the market in which the transaction took place is not significantly different from the main market, it should be considered that the transaction price reliably determines the fair value of convertible bonds. Convertible bonds have been valued as the sum of the value of the variable bond and the option of conversion of the bond into shares of the parent company. The ordinary bond component was measured separately from the possibility of converting the instrument into shares, by measuring the discounted cash flows from interest (from the point of view of the bondholder), whereby the discount rate is the interest rate that the Company would pay for the bonds without the right to convert the bonds into shares. The value of the equity component was calculated according to provisions of IAS 32.32, by subtracting the liability component from the fair value of the convertible bond. The liability component is presented under liabilities on the balance sheet, while the equity component is presented as a component of equities.

Provisions for liabilities

Provisions for liabilities are established when the Company 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 Company expects that provisioned costs can be reimbursed, for example under an insurance contract, then the refund is posted as a separate asset, only when it is basically certain that the refund is to actually take place. Costs of a provision are posted to the income statement, decreased by all the refunds. Provisions for future operating losses are not established.

Functional currency. Disclosure of figures in the financial statements

The items included in the financial statements relating to the Company are measured using the primary currency of the economic environment in which the Company operates ("the functional currency"), which is the Polish zloty. The data in the financial statements are presented in thousands of Polish zlotys, unless stated otherwise.

Change in standards

Standards, Interpretations and amendments to published Standards as adopted by the EU that are not yet effective for annual periods ending on 31 December 2016:

Standard/Interpretation	*Nature of impending change in accounting policy*
IFRS 15 Revenue from Contracts with Customers	The Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Specifically, it replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under the new standard, entities will apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognized 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 recognized: - 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. Included in the Standard are new qualitative and quantitative disclosure requirements to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. *The Company is currently analysing the impact of published standard and believes that beyond the additional disclosures, it should not have a material impact on the financial statements.*
IFRS 9 Financial Instruments (2014)	The new standard replaces the guidance included in IAS 39 *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets, including a model for calculating impairment. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables used to classify financial assets. Under the new standard, financial assets are to be classified on initial recognition into one of three categories: - financial assets measured at amortized cost; - financial assets measured at fair value through profit or loss; or - financial assets measured at fair value through other comprehensive income (OCI). A financial asset is classified as being subsequently 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, at initial recognition of an equity investment that is not held for trading, an entity may irrevocably elect to present all fair value changes from the investment in OCI. The election is available on an individual share-by-share basis. No amount recognised in OCI in relation to the above-described remeasurement is ever reclassified to profit or loss at a later date. The new standard retains almost all of the existing requirements in IAS 39 on the classification and measurement of financial liabilities and on derecognition of financial assets and financial liabilities. However, IFRS 9 requires that the portion of the gain or loss on a financial liability designated at initial recognition as fair value through profit or loss that is attributable to changes in its credit risk be presented in OCI, with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, or if the financial liability is a loan commitment or a financial guarantee contract, the entire fair value change is presented in profit or loss. In respect of the financial assets impairment requirements, IFRS 9 replaces the "incurred loss" impairment model in IAS 39 with an "expected credit loss" model. Under the new approach, which aims to address concerns about "too little, too late" provisioning for impairment losses, it will no longer be necessary for a loss event to occur before an impairment allowance is recognized. In short, the expected credit loss model uses a dual measurement approach, under which the loss allowance is measured as either: - 12-month expected credit losses, or

Standard/Interpretation	*Nature of impending change in accounting policy*
	- lifetime expected credit losses. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition. If the credit risk of a financial asset has not increased significantly since initial recognition, the financial asset will attract a loss allowance equal to 12-month expected credit loss. If, however, its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses, thereby increasing the amount of impairment recognized. The standard contains a rebuttable presumption that the condition for recognizing lifetime expected credit losses is met when payments are more than 30 days past due. *The Company is currently analysing the impact of published standard and believes that beyond the additional disclosures, it should not have a material impact on the financial statements.*

Standards and interpretations not yet endorsed by the EU as at 8 December 2016:

Standard/Interpretation	*Nature of impending change in accounting policy*
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates)	The Amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. While IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture, IFRS 10 requires full profit or loss recognition on the loss of control of subsidiary. The Amendments require a full gain or loss to be recognised when the assets transferred meet the definition of a business under IFRS 3 Business Combinations (whether it is housed in a subsidiary or not). A partial gain or loss (only to the extent of unrelated investors' interests) shall be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. *The Company is currently analysing the impact of published standard and believes that beyond the additional disclosures, it should not have a material impact on the financial statements.*
IFRS 16 Leases	IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases. Bringing operating leases in balance sheet will result in recognizing a new asset – the right to use the underlying asset – and a new liability – the obligation to make lease payments. The right-of-use asset will be depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained. *The Company is currently analysing the impact of published standard and believes that beyond the additional disclosures, it should not have a material impact on the financial statements.*
Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12 Income Taxes)	The amendments clarify, among other things, that unrealized losses related to debt instruments measured at fair value in the financial statements but whose tax base is their original cost can give rise to deductible temporary differences. *The Company is currently analysing the impact of published standard and believes that beyond the additional disclosures, it should not have a material impact on the financial statements.*
Diclosure initiative (Amendments to IAS 7 Statement of Cash Flows)	Pursuant to the amendments, an entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. One way to fulfil the above disclosure requirement in is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. *The Company is currently analysing the impact of published standard and believes that beyond the additional disclosures, it should not have a material impact on the financial statements.*
Amendments to IFRS 15 (Revenue from Contracts with Customers)	The amendments 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 licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. *The Company is currently analysing the impact of published standard and believes that beyond the additional disclosures, it should not have a material impact on the financial statements.*
Amendments to IFRS 2 (Share-based Payment)	The amendments, claryfing how to account for certain types of share-based payment transactions, provide requirements on the accounting for: - 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

Standard/Interpretation	*Nature of impending change in accounting policy*
	- 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. *The Company is currently analysing the impact of published standard and believes that beyond the additional disclosures, it should not have a material impact on the financial statements.*
Improvements to IFRS (2014-2016)	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; • 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 has 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, and to clarify date of such an election. *The Company is currently analysing the impact of published standards and believes that beyond the additional disclosures, they should not have a material impact on the financial statements.*
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. *The Company is currently analysing the impact of published standard and believes that beyond the additional disclosures, it should not have a material impact on the financial statements.*

35. Financial risk management

Risks to which the Company is exposed:
- market risk
- investment risk,
- credit risk.

Below the most significant risks to which the Company is exposed are presented.

MARKET RISK

The Company is exposed to market risk, including the risk of changes in interest rates. The Company's exposure to market risk resulting from changes in interest rates relates primarily to bank deposits, loans borrowed and bills and bonds issued.

The Company does not hedge its investment portfolio with derivative financial instruments. For the measurement of interest rate risk, the Company uses sensitivity analysis.

The risk of changes in measurement of financial assets

The risk associated with a decrease in the value of financial instruments - shares. Subsidiaries are measured to the fair value of assets held at least once a quarter. Hence changes in the fair value are reflected in the financial statements on the ongoing basis. The measurement methods are described in **Note 9, "Investments in subsidiaries"**.

Interest rate risk

The Company's exposure to market risk resulting from changes in interest rates relates primarily to bank deposits, loans borrowed and own securities issued (bill of exchange and bonds).

The Company does not hedge the interest rate risk with derivative financial instruments. For the measurement of interest rate risk, the Company uses sensitivity analysis.

Interest rate risk management is focused on minimizing fluctuations in interest cash flows on financial assets and liabilities which bear interest at variable interest rates.

Liquidity risk

The nature of transactions and financial assets means that financial liquidity risk is low. The Company manages liquidity risk by monitoring payment dates and demand for cash required for payments (current transactions monitored on a weekly basis) and the demand for cash. The demand for cash is compared with the available sources of funding (including in particular by assessing the ability to obtain financing in the form of loans, borrowings and bonds) and is compared to investments with available funds.

The Company manages the risk by monitoring the liquidity ratios based on balance sheet items, analysis of the level of liquid assets in relation to cash flows and maintaining access to various sources of financing (including the reserve credit facilities).

The liquidity management process is optimised by way of centralised management of funds within the MCI Group, where liquid surplus of cash generated by individual companies which are part of the Group is invested in loans and other instruments issued by entities which belong to the group (lower credit risk). Company's cash surplus is invested in short-term liquid financial instruments, such as bank deposits.

One of the methods of liquidity risk management is maintaining open and unused credit lines. They create a liquidity reserve.

FX risk

In the period from 1 January to 31 December 2015 the Company did not conclude transactions that would expose it to currency risk. In addition, the Funds make investments in currencies other than the zloty. In view of the above, fluctuations in exchange rates will have an effect on the reported value of the investment, which will go down in the case of appreciation of the zloty against the currencies in which individual investments in the investment period are carried out. Fluctuations in investment rates, by means of decline in measurement or value of revenues earned from the sale of the investment, may affect the drop in value of the fund's assets, and consequently, the drop in the value of investment certificates held by MCI. Whenever possible, the management company enforces the policy of hedging the foreign exchange risk by matching foreign currency funding in relation to the original investment currency.

INVESTMENT RISK

The essence of venture capital investments is the ability to achieve higher returns by investing in projects with higher levels of risk. Before making venture capital investments, the investment teams conduct an in-depth analysis of the business plan, which does not ensure that the development project will be consistent with the assumptions. In particular, this is true for the technological innovations which have no application on the market yet, and thus are difficult to assess. If the business model of a company does not succeed, this may adversely affect the value of their investment and result in losses. As a result, this may translate into negative financial results of the Company by a decline in the value of investment certificates.

The risk related to the measurement of managed companies which affects the value of assets being managed

Once a quarter, MCI measures the fair value of assets held in funds, and the measurement value translates to the value of assets being managed and the level of remuneration received. Funds the certificates of which are held by MCI and subsidiaries of MCI invest capital for a period from 5 to 10 years. Usually, entities the securities of which are not listed on the stock exchange are subsidized. Thus, liquidity of such investments is limited, and the profit is earned by selling - usually to industry or financial investors - of shares of the company. There is no assurance that in future the funds will find potential buyers for their investment and will be able to exit the investments with assumed rates of return. The risk of economic and stock market downturn may also hinder the possibility of the exit or significantly limit the realizable rate of return. This may adversely affect the financial results of MCI.

Competition risk associated with acquisition of new investment projects

Development of MCI is closely related to the potential to make new investments in promising and technologically advanced economic projects. The market has seen an increase in competition from other funds (venture capital, private equity) and business angels also interested in investing in companies dealing with modern technologies. The Management Board of MCI addresses this risk by geographical expansion to new, promising markets, where competition is smaller. A major competitive leverage of MCI Capital S.A. is its recognizability in Poland and abroad, which allows the Company to win new projects.

The risk associated with the structure of the investment portfolio of funds

In the creation of the portfolio, the appropriate diversification of the portfolio is crucial, as it aims to reduce investment risk. Funds the certificates of which MCI holds try to reduce the risk by limiting capital exposure in a single project.

At the same time, funds are consistently pursuing geographic and sectoral diversification policies. Funds acquire shares in companies operating in Poland, but also in Central and Eastern Europe (CEE), German-speaking countries (DACH), former USSR (CIS), Turkey, and Israel. Geographic diversification allows for spreading the investment risk of funds (the decrease in profitability through the deterioration of the economic situation in one market may be minimized due to the good situation on another market) and to benefit from the increase in value of investments in emerging markets. In addition, funds diversify their investments by segments of the companies, in which shares the funds invested. Funds invest in early stage companies (*start-up/seed* businesses) through growth and large buyout/expansion companies.

CREDIT RISK

Credit risk arises from default of the other party to make payment and the maximum exposure to this risk is equal to the carrying amount of financial assets which the credit risk of the Company is related to. These include: trade receivables and due bills, loans, cash, derivatives and investments in shares and investment certificates. A significant part of the Company's financial assets are receivables and investments in affiliates. Through loans, receivables from bills of exchange and trade receivables from related parties, the Company optimizes liquidity management. The Company regularly monitors receivables. Credit risk associated with investments in subsidiaries and associates, investment certificates and derivatives is based on the results of companies and funds, and is reflected in the measurement of these investments to their fair value. With respect to cash, in order to improve the current liquidity, the Company enters into agreements of bank deposits with entities of high creditworthiness, and invests funds for short periods. There are no major concentrations of credit risk in the Company.