Quarterly Report containing interim financial statements of the AB Group for Q1 of the financial year 2016-2017

covering the period from 01-07-2016 to 30-09-2016

Publication date: 14 November 2016

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I) SELECTED CONSOLIDATED FINANCIAL DATA

	PLN '000		EUR '000	
	Q1 accumulated data for the period from 16-07-01 to 16-09-30	Q1 accumulated data for the period from 15-07-01 to 15-09-30	Q1 accumulated data for the period from 16-07-01 to 16-09-30	Q1 accumulated data for the period from 15-07-01 to 15-09-30
Sales revenues	1,874,661	1,504,993	431,423	357,718
Profit (loss) on operating activities	20,988	20,017	4,830	4,758
Profit (loss) before tax	17,285	15,988	3,978	3,800
Net profit (loss)	14,146	13,073	3,255	3,107
Net profit (loss) attributable to shareholders of the parent entity	14,146	13,073	3,255	3,107
Net profit (loss) attributable to minority shareholders				
Total comprehensive income	14,342	15,602	3,301	3,708
Total comprehensive income attributable to the shareholders of the parent company	14,342	15,602	3,301	3,708
Total comprehensive income attributable to minority shareholders				
Net cash flows from operating activities	-32,305	-65,603	-7,434	-15,593
Net cash flows from investing activities	-3,718	-7,938	-856	-1,887
Net cash flows from financing activities	55,508	39,776	12,774	9,454
Total net cash flows	19,485	-33,765	4,484	-8,026
Profit (loss) per ordinary share (PLN/EUR)	0.87	0.81	0.20	0.19
Diluted profit (loss) per ordinary share (PLN/EUR)	0.87	0.81	0.20	0.19
Number of shares (units)	16,187,644	16,187,644	16,187,644	16,187,644
	PLN '000		EUR '000	
	As at 30.09.2016	As at 30.06.2016	As at 30.09.2016	As at 30.06.2016
Total assets	1,920,490	1,839,276	445,383	415,609
Equity attributable to shareholders of the parent entity	598,760	584,418	138,859	132,057
Equity attributable to non-controlling shareholders				
Total equity	597,760	584,418	138,859	132,057
Long-term liabilities	200,766	202,162	46,560	45,681
Short-term liabilities	1,120,964	1,052,696	259,964	237,871
Total payables	1,321,730	1,254,858	306,524	283,552
Book value per share (PLN/EUR)	36.99	36.10	8.58	8.16
Diluted book value per share	36.99	36.10	8.58	8.16

NBP exchange rate as at 30.09.2016:	4.3120	PLN/EUR
NBP exchange rate as at 30.06.2016:	4.4255	PLN/EUR
Mean FX rate for the period 01.07-30.09.2016	4.3453	PLN/EUR
Mean FX rate for the period 01.07-30.09.2015	4.2072	PLN/EUR

II) SELECTED STANDALONE FINANCIAL DATA

	PLN '000		EUR '000	
	Q1 accumulated data for the period from 16-07-01 to 16-09-30	Q1 accumulated data for the period from 15-07-01 to 15-09-30	Q1 accumulated data for the period from 16-07-01 to 16-09-30	Q1 accumulated data for the period from 15-07-01 to 15-09-30
Net income from the sale of products, goods and materials	1,115,349	871,639	256,679	207,178
II. Profit (loss) on operating activities	12,612	13,014	2,902	3,093
III. Gross profit (loss)	11,337	11,307	2,609	2,688
IV. Net profit (loss)	9,461	9,352	2,177	2,223
V. Net cash flows from operating activities	18,473	-22,857	4,251	-5,433
VI. Net cash flows from investing activities	-3,828	-78,057	-881	-18,553
VII. Net cash flows from financing activities	8,377	65,563	1,928	15,584
VIII. Total net cash flows	23,022	-35,351	5,298	-8,403
	PLN '000		EUR '000	
	As at 30.09.2016	As at 30.06.2016	As at 30.09.2016	As at 30.06.2016
IX. Total assets	1,262,715	1,133,039	292,837	256,025
X. Liabilities and provisions for liabilities	807,045	693,516	187,163	156,709
XI. Long-term liabilities	170,612	170,816	39,567	38,598
XII. Short-term liabilities	636,433	522,700	147,596	118,111
XIII. Equity	455,670	439,523	105,675	99,316
XIV. Share capital	16,188	16,188	3,754	3,658
XV. Number of shares (units)	16,187,644	16,187,644	16,187,644	16,187,644
XVI. Profit (loss) per ordinary share (PLN/EUR)	0.58	3.14	0.13	0.73
XVII. Diluted profit (loss) per share (PLN/EUR)	0.58	3.14	0.13	0.73
XVII. Book value per share (PLN/EUR)	28.15	27.15	6.53	6.14
XVIII. Diluted book value per share	28.15	27.15	6.53	6.14

NBP exchange rate as at 30.09.2016:	4.3120	PLN/EUR
NBP exchange rate as at 30.06.2016:	4.4255	PLN/EUR
Mean FX rate for the period 01.07-30.09.2016	4.3453	PLN/EUR
Mean FX rate for the period 01.07-30.09.2015	4.2072	PLN/EUR

III) CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED ON 30 SEPTEMBER 2016

	3-month period ended on 30.09.2016 PLN'000	3-month period ended on 30.09.2015 PLN'000
Continued operations		
Sales revenues	1,874,661	1,504,993
Internal costs of sales	-1,800,316	-1,445,931
Gross profit (loss) on sales	74,345	59,062
Costs of sale	-45,757	-31,668
Overheads	-7,140	-6,763
Other operating revenues	3,093	935
Other operating expenses	-3,553	-1,549
Profit (loss) on operating activities	**20,988**	**20,017**
Financial income	1,182	751
Financial expenses	-4,885	-4,780
Profit on disposal of affiliated entities		
Share in profit of affiliated entities		
Profit (loss) before tax	17,285	15,988
Income tax	-3,139	-2,915
Net profit (loss) from continuing operations	**14,146**	**13,073**
Discontinued operations		
Profit (loss) on discontinued operations		
Net profit (loss)	**14,146**	**13,073**
Net profit (loss) attributable to:		
Shareholders of the parent entity	14,146	13,073
Non-controlling shareholders		

IV) CONSOLIDATED COMPREHENSIVE INCOME STATEMENT FOR THE PERIOD ENDED ON 30 SEPTEMBER 2016

	3-month period ended on 30.09.2016	3-month period ended on 30.09.2015
	PLN'000	PLN'000
Net profit (loss)	**14,146**	**13,073**
Other comprehensive income:		
Items that may be reclassified to profit/loss in subsequent periods		
FX differences from translation of investments in foreign entities	-7,199	4,284
Hedge accounting	7,395	-1,755
Share in other comprehensive income of affiliated entities		
Results of valuation of financial assets available for sale		
Income tax relating to items that may be reclassified		
Items that will not be reclassified to profit (loss)		
Results of revaluation of fixed assets		
Actuarial profit and losses		
Income tax relating to items that will not be reclassified		
Comprehensive income attributable to:		
The shareholders of the parent entity	14,342	15,602
Non-controlling shareholders		
Total comprehensive income	**14,342**	**15,602**

V) Consolidated Statement of Financial Position for the period ended on 30 September 2016

	As at		
	30.09.2016	30.06.2016	30.09.2015
	PLN'000	PLN'000	PLN'000
ASSETS			
Fixed assets			
Tangible assets	187,396	186,939	189,954
Goodwill	43,377	44,386	42,469
Other intangible assets	23,680	24,391	22,166
Long-term investments	452	452	452
Deferred income tax assets	15,874	17,863	13,668
Long-term receivables	12		12
Other financial assets	169	187	171
Other assets			
Total fixed assets	**270,960**	**274,218**	**268,892**
Current assets			
Inventories	917,889	877,540	751,518
Trade and other receivables	681,845	656,971	555,534
Income tax receivables			
Derivatives			
Other financial assets	63	296	28
Other assets	3,448	3,451	3,339
Cash and cash equivalents	46,285	26,800	61,350
Total current assets	**1,649,530**	**1,565,058**	**1,371,769**
Total assets	**1,920,490**	**1,839,276**	**1,640,661**

LIABILITIES	30.09.2016 PLN'000	30.06.2016 PLN'000	30.09.2015 PLN'000
Equity			
Issued share capital	16,188	16,188	16,188
Treasury shares			
Reserve capital	145,612	145,612	145,612
Reserve capital	264,351	264,155	213,658
Retained profit	172,609	158,463	160,064
Equity attributable to shareholders of the parent entity	598,760	584,418	535,522
Equity attributable to non-controlling shareholders			
Total equity	**598,760**	**584,418**	**535,522**
Long-term liabilities			
Long-term borrowings and bank loans	194,673	195,859	203,682
Financial liabilities			
Deferred income tax provision	6,093	6,303	5,164
Long-term provisions			
Total long-term liabilities	**200,766**	**202,162**	**208,846**
Short-term liabilities			
Trade and other liabilities	874,712	860,774	715,488
Short-term borrowings and bank loans	194,111	135,564	133,987
Finance lease liabilities			
Other financial liabilities	4,203	7,359	2,810
Current tax liabilities	3,255	6,610	2,905
Short-term provisions	44,683	42,389	41,103
Total short-term liabilities	**1,120,964**	**1,052,696**	**896,293**
Total payables	**1,321,730**	**1,254,858**	**1,105 139**
Total liabilities	**1,920,490**	**1,839,276**	**1,640,661**

VI) Consolidated Statement of Changes in Equity for the period ended on 30 September 2016

	Share capital	Reserve capital	Reserve capital from reduction of share capital	General reserve capital	Cash received from valuation of cash flow hedges	Reserve capital for currency translations	Total reserve capital	Retained profit	Equity attributable to shareholders of the parent entity	Equity attributable to non-controlling shareholders	Total equity
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
As at 1 July 2015	16,188	145,266	146	202,226	-5,102	13,759	211,029	147,337	519,820		519,820
Issue of ordinary shares											
Costs of share issue											
Purchase of treasury shares											
Valuation of management share option programme								13,073	13,073		13,073
Net profit / loss for the period		346						-346			
Profit distribution for the preceding financial year						4,384	4,384		4,384		4,384
FX differences from translation of investments in foreign entities					-1,755		-1,755		-1,755		-1,755
Hedge accounting											
Results of revaluation of fixed assets											
Income tax on other comprehensive income											
Other											
Dividend distribution											
Total recognised revenues and expenses											
As at 30 September 2015	16,188	145,612	146	202,226	-6,857	18,143	213,658	160,064	535,522		535,522

	Share capital	Reserve capital	Reserve capital from reduction of share capital	General reserve capital	Capital of cash flow hedges	Reserve capital for currency translations	Total reserve capital	Retained profit	Equity attributable to shareholders of the parent entity	Equity attributable to non-controlling shareholders	Total equity
As at 1 July 2016	16,188	145,612	146	244,026	-8,130	28,113	264,155	158,463	584,418		584,418
Costs of share issue											
Purchase of treasury shares											
Valuation of management share option programme											
Net profit / loss for the period								14,146	14,146		14,146
Profit distribution for the preceding financial year											
FX differences from translation of investments in foreign entities						-7,199	-7,199		-7,199		-7,199
Net cash flow hedge					7,395		7,395		7,395		7,395
Results of revaluation of fixed assets											
Income tax on other comprehensive income											
Acquisition of a subsidiary											
Other											
Dividend distribution											
Total recognised revenues and expenses											
As at 30 September 2016	16,188	145,612	146	244,026	-735	20,914	264,351	172,609	598,760		598,760

VII) Consolidated Cash Flow Statement for the period ended on 30 September 2016

	3-month period ended on 30.09.2016	3-month period ended on 30.09.2015
	PLN'000	PLN'000
Cash flows from operating activities		
Gross profit (loss)	17,285	15,988
Financial expenses recognised in the statement of comprehensive income	3,039	2,632
Depreciation/amortisation	3,498	2,647
Profit (loss) on investing activities	-244	-228
FX profit (loss)	-285	4,430
	23,293	25,469
Changes in the working capital		
Change in trade receivables	-24,874	-41,882
Change in other receivables		
Change in inventories	-40,349	-104,430
Change in other assets	3	-220
Change in trade liabilities	13,938	66,690
Change in provisions	2,294	-6,350
Other adjustments		
	-48,988	-86,192
Cash generated from operating activities	-25,695	-60,723
Interest paid		
Corporate income tax paid	-6,610	-4,880
Net cash flows from operating activities	-32,305	-65,603
Cash flows from investing activities		
Payments for acquisition of financial assets		
Proceeds from disposal of financial assets		
Interest received		
Borrowings disbursed		
Borrowings repaid	16	24
Payments for tangible fixed assets	-3,995	-8,566
Proceeds from disposal of tangible fixed assets	266	747
Payments for intangible assets	-5	-143
Cash generated from investing activities	-3,718	-7,938
Cash flows from financing activities		
Proceeds from issues of debt securities		69,825
Proceeds from share issues		
Costs of share issues		
Borrowings and loans received	58,547	
Borrowings and loans repaid		-27,417
Interest	-3,039	-2,632
Redemption of debt securities		
Purchase of treasury shares		
Net cash flows from financing activities	55,508	39,776
Net change in cash and cash equivalents	**19,485**	**-33,765**
Cash and cash equivalents at the beginning of the period	26,800	95,115
Cash and cash equivalents at the end of the period	46,285	61,350

VIII) Standalone profit and loss account for the period ended on 30 September 2016

	3-month period ended on 30.09.2016	3-month period ended on 30.09.2015
	PLN'000	PLN'000
Continued operations		
Sales revenues	1,115,349	871,639
Internal costs of sales	-1,076,319	-842,486
Gross profit (loss) on sales	39,030	29,153
Costs of sale	-21,065	-13,566
Overheads	-3,078	-2,894
Other operating revenues	631	382
Other operating expenses	-2,906	-61
Profit (loss) on operating activities	**12,612**	**13,014**
Financial income	2,540	1,234
Financial expenses	-3,815	-2,941
Profit on disposal of affiliated entities		
Share in profit of affiliated entities		
Profit (loss) before tax	11,337	11,307
Income tax	-1,876	-1,955
Net profit (loss) from continuing operations	**9,461**	**9,352**
Net profit (loss)	**9,461**	**9,352**
Number of shares	**16,187,644**	**16,187,644**
Profit (loss) per ordinary share (PLN)	0.58	0.58
Diluted profit / (loss) per ordinary share in PLN	0.58	0.58

IX) STANDALONE STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED ON 30 SEPTEMBER 2016

	3-month period ended on 30.09.2016	3-month period ended on 30.09.2015
	PLN'000	PLN'000
Net profit (loss)	**9,461**	**9,352**
Other comprehensive income:		
Items that may be reclassified to profit/loss in subsequent periods		
Hedge accounting	6,686	-1,038
Results of valuation of financial assets available for sale		
Income tax relating to items that may be reclassified		
Items that will not be reclassified to profit (loss)		
Results of revaluation of fixed assets		
Actuarial profit and losses		
Income tax relating to items that will not be reclassified		
Total comprehensive	**16,147**	**8,314**

X) STANDALONE STATEMENT OF FINANCIAL POSITION FOR THE PERIOD ENDED ON 30 SEPTEMBER 2016

	As at 30.09.2016	30.06.2016	30.09.2015
	PLN'000	PLN'000	PLN'000
ASSETS			
Fixed assets			
Tangible assets	49,101	49,158	51,585
Goodwill			
Other intangible assets	589	698	436
Long-term investments	452	452	452
Deferred income tax assets	10,042	11,405	9,310
Long-term receivables			17,483
Other financial assets	270,000	267,840	235,994
Other assets			
Total fixed assets	**330,184**	**329,553**	**315,260**
Current assets			
Inventories	472,661	429,898	379,142
Trade and other receivables	420,112	357,247	293,525
Income tax receivables			
Derivatives			
Other financial assets	21	76	7
Other assets	1,580	1,130	1,657
Cash and cash equivalents	38,157	15,135	43,645
Total current assets	**932,531**	**803,486**	**717,976**
Total assets	1,262,715	**1,133,039**	1,033 236

LIABILITIES	30.09.2016 PLN'000	30.06.2016 PLN'000	30.09.2015 PLN'000
Equity			
Issued share capital	16,188	16,188	16,188
Treasury shares			
Reserve capital	135,503	135,503	135,503
Reserve capital	243,616	236,930	196,113
Retained profit	60,363	50,902	62,483
Total equity	**455,670**	**439,523**	**410,287**
Long-term liabilities			
Long-term borrowings and bank loans	169,723	169,701	170,677
Financial liabilities			
Pension liabilities			
Deferred income tax provision	889	1,115	81
Long-term provisions			
Total long-term liabilities	**170,612**	**170,816**	**170,758**
Short-term liabilities			
Trade and other liabilities	552,035	445,105	408,626
Short-term borrowings and bank loans	36,323	25,901	15
Finance lease liabilities			
Other financial liabilities	4,240	7,163	2,359
Current tax liabilities	2,307	4,164	1,650
Short-term provisions	41,528	40,367	39,541
Total short-term liabilities	**636,433**	**522,700**	**452,191**
Total payables	**807,045**	**693,516**	**622,949**
Total liabilities	**1,262,715**	**1,133,039**	**1,033 236**

XI) CHANGES TO EQUITY (STAND-ALONE) FOR THE PERIOD ENDED ON 30 SEPTEMBER 2016

	[PLN'000]	Share capital	Reserve capital	Other reserves	Cash received from valuation of cash flow hedges	Retained profit	Total equity
I	**As at 1 July 2015**	**16,188**	**135,503**	**202,364**	**-5,213**	**53,131**	**401,973**
	Costs of share issue						
	Distribution of profit for the previous year						
	Net cash flow hedge				-1,038		-1,038
	Dividend distribution						
	Net profit for the current period					9,352	9,352
	Other						
	As at 30 September 2015	**16,188**	**135,503**	**202,364**	**-6,251**	**62,483**	**410,287**

	[PLN'000]	Share capital	Reserve capital	Other reserves	Cash received from valuation of cash flow hedges	Retained profit	Total equity
I	**As at 1 July 2016**	**16,188**	**135,503**	**244,163**	**-7,233**	**50,902**	**439,523**
	Costs of share issue						
	Distribution of profit for the previous year						
	Net cash flow hedge				6,686		6,686
	Dividend distribution						
	Net profit for the current period					9,461	9,461
	Other						
	As at 30 September 2016	**16,188**	**135,503**	**244,163**	**-547**	**60,363**	**455,670**

XII) STANDALONE STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED ON 30 SEPTEMBER 2016

	3-month period ended on 30.09.2016	3-month period ended on 30.09.2015
	PLN'000	PLN'000
Cash flows from operating activities		
Gross profit (loss)	11,337	11,307
Financial expenses recognised in the statement of comprehensive income	2,045	1,556
Depreciation/amortisation	1,041	1,115
Profit (loss) on investing activities	-243	-221
FX profit (loss)	6,444	-104
	20,624	13,653
Changes in the working capital		
Change in trade receivables	-62,865	-8,039
Change in other receivables		
Change in inventories	-42,763	-52,011
Change in other assets	-450	-475
Change in trade liabilities	106,930	27,774
Change in provisions	1,161	-1,436
Other adjustments		
	2,013	-34,187
Cash generated from operating activities	22,637	-20,534
Interest paid		
Corporate income tax paid	-4,164	-2,323
Net cash flows from operating activities	18,473	-22,857
Cash flows from investing activities		
Payments for acquisition of financial assets		-17,483
Proceeds from disposal of financial assets		
Interest received	545	
Borrowings disbursed	-4,000	-70,000
Borrowings repaid	11	10,039
Payments for tangible fixed assets	-644	-1,353
Proceeds from disposal of tangible fixed assets	265	740
Payments for intangible assets	-5	
Cash generated from investing activities	-3,828	-78,057
Cash flows from financing activities		
Proceeds from issues of debt securities		69,825
Proceeds from share issues		
Costs of share issues		
Borrowings and loans received	10,422	
Borrowings and loans repaid		-2,706
Interest	-2,045	-1,556
Redemption of debt securities		
Purchase of treasury shares		
Net cash flows from financing activities	8,377	65,563

Net change in cash and cash equivalents	**23,022**	**-35,351**
Cash and cash equivalents at the beginning of the period	15,135	78,996
Cash and cash equivalents at the end of the period	38,157	43,645

XIII) Notes to the Consolidated Financial Statements

1. Compliance statement

These Condensed Interim Consolidated Financial Statements of the Group have been prepared in compliance with the International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") and in accordance with the relevant accounting standards applicable to interim financial reporting approved by the European Union, published and in force at the time of preparation of these Interim Consolidated Financial Statements.

These Condensed Interim Consolidated Financial Statements do not contain all the information that is disclosed in the annual consolidated financial statements made in accordance with IFRS. They should be read jointly with the Consolidated Financial Statements of the AB Group for 2015/16.

2. Applied accounting principles

- **Going concern assumption**

The Consolidated Financial Statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As of the date of these Financial Statements, no circumstances occur that would pose a threat to continuation of business activities.

- **Functional currency and reporting currency**

All values disclosed in the Consolidated Financial Statements are given in Polish Zloty (PLN). The Polish Zloty is the functional and reporting currency of the Group. The data in the Financial Statements was presented in PLN '000 unless, in certain circumstances, a greater accuracy was applied.

- **Consolidation basis**

These Consolidated Financial Statements have been made in accordance with the historical cost convention, with the exception of derivative financial instruments, which are measured at fair value.

The Consolidated Financial Statements include the financial statements of the parent entity and the financial statements of the entities controlled by the parent entity. Control is deemed to have been assumed when the parent entity is able to influence financial and operational policies of the subordinated entities directly or indirectly in order to benefit from their activity.

Financial performance of subsidiary entities acquired or disposed during the year is disclosed in the Consolidated Financial Statements from/until the time of effective acquisition or disposal.

Whenever required, the financial statements of subsidiary or affiliated entities are adjusted to make the accounting rules applied by these entities compliant with the rules applied by other Group entities.

All transactions, balances, revenues, and expenses between the consolidated entities are fully eliminated for consolidation purposes.

Non-controlling interests in net assets (with the exception of goodwill) of the consolidated subsidiary entities are disclosed separately from the equity of the Group. Non-controlling interests include the value of shares as at the date of business combination (see below) and non-controlling interests in changes in equity starting from the business combination date. Losses attributable to non-controlling interests in excess of the interest in the entity's share capital are allocated to the Group's interests with the exception of where there is a binding commitment and ability of non-controlling shareholders to make additional investments to cover the losses.

- **Business combinations**

Acquisitions of subsidiary entities and separate business operations were accounted for in accordance with the acquisition method as per the IFRS 3, applicable as at the combination date.

- **Goodwill**

Goodwill resulting from acquisition represents the difference between the total purchase consideration and the total of the fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary or affiliated entity or joint venture recognised as at the acquisition date.
Goodwill is initially recognised as an asset at cost, and is subsequently revalued at cost reduced by accumulated impairment.

- **Recognition of sales revenues**

Sales revenues are recognised at fair value received or due after accounting for anticipated discounts, returns by clients and similar charges.

Sale of goods

Revenues from sale of goods are recognised when all the conditions specified below have been met:

- the Group has transferred to the buyer the significant risks and rewards of ownership;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will be received by the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Provision of services

Revenues generated under service contracts are recognised by reference to the stage of completion of the transaction under each contract.

Interest and dividend income

Dividend income is recognised when the shareholders' right to receive dividend distribution is established.

Interest income is recognised on an accrual basis by reference to the amount of outstanding principal and subject to the effective interest rate which is the rate effectively discounting estimated future cash receipts through the expected life of an asset to the net carrying value of the asset.

- **Foreign currencies**

Standalone financial statements of the Group's companies are presented in the currencies prevailing in the markets of their respective business operations (their functional currencies). The Consolidated Financial Statements present the financial results and items relating to the individual entities in the Polish Zloty (PLN), which is the functional currency of the Company and the presentation currency of the Consolidated Financial Statements.

In standalone financial statements transactions executed in other currencies than PLN are disclosed at the exchange rate prevailing on the transaction date. As at the balance sheet date, foreign currency-denominated cash assets and liabilities are translated at the exchange rate prevailing as at that date. Non-cash assets and liabilities measured at fair value and denominated in foreign currencies are translated at the exchange rate prevailing on the date the fair value was determined. Non-cash items stated at historical cost in foreign currencies are not re-translated.

FX differences are recognised in the profit and loss account in the period they arise, with the following exceptions:

- FX differences concerning assets under construction to be used in production that are incorporated as costs of such assets and that are treated as adjustments of interest expense of foreign currency-denominated loans;
- FX differences resulting from transactions executed to hedge certain FX risk (see: rules of hedge accounting); and
- FX differences resulting from cash receivables from or payables towards foreign entities with which no settlements are planned or such settlements are not probable and that are part of net investments in such foreign entities and are recognised in reserve funds for currency translations and in net profit (loss) on disposal of investments.

For consolidation purposes, the assets and liabilities of foreign subsidiaries are translated into PLN at the exchange rate as at the balance sheet date. Revenues and expenses are translated at the mean exchange rate for the reporting period except when fluctuations of the exchange rates are material (then the exchange rates of the transaction dates are applied). Any resultant FX differences are recognised in the Consolidated Financial Statements in equity and are transferred to reserve capital for currency translations, set up by the Group. Such FX differences are recognised as revenues or expenses in the period when a foreign subsidiary is sold.

Goodwill and fair value adjustments resulting from the acquisition of a foreign subsidiary are treated as an asset or liability of the entity domiciled abroad and are translated into PLN at the exchange rate prevailing as at the balance sheet date.

- **Borrowing costs**

Borrowing costs directly related to the acquisition or manufacturing of assets that require a longer time to be used or resold, are added to the manufacturing costs of such assets until the assets are ready for intended application or resale. Gains on investments generated as a result of short-term investments of the external funding before it is invested in the assets referred to above reduce the borrowing costs subject to capitalisation.

All other costs of external funding are recognised directly in the profit and loss account in the period in which they were incurred.

- **Costs of future retirement benefits**

In accordance with the labour law regulations, employees of the Group are entitled to a retirement allowance. It is a one-off payment due to employees upon their retirement. The amount of retirement allowance depends on the average salary of an employee. The Group sets up a provision for future retirement allowance liabilities in order to allocate the costs to the relevant periods. In accordance with IAS 19, retirement allowances are defined post-employment benefit plans. The accrued liability is equal to discounted payments to be made in the future subject to staff rotation and applies to the period until the balance sheet date. Demographic information and information on staff rotation is based on historical data. Changes in the provisions resulting from the calculations are recognised as profit or loss.

- **Taxation**

Income tax of the entity includes current tax payable and deferred tax.

Current income tax

The current tax liability is calculated on the basis of the taxation base for the current financial year. Tax profit (loss) differs from the carrying net profit (loss) due to exclusion of taxable income and tax-deductible expenses in future periods as well as revenues and expenses that are never subject to taxation. The current income tax liability is calculated at the tax rates applicable in a given financial year.

Deferred income tax

Deferred income tax is calculated using the balance sheet liability method as a tax payable or refundable in the future taking into account differences between the carrying value of assets and liabilities and the corresponding tax values used to calculate the taxation base.
The deferred income tax provision is recognised with respect to all positive temporary taxable differences while the deferred income tax asset is recognised at a probable reduction amount of future taxable profit by recognised negative temporary differences. No deferred income tax asset or provision is recognised when the temporary difference arises from goodwill or due to original recognition (apart from recognition after business combinations) of another asset or liability item in a transaction that does not affect tax or book profit.

The deferred income tax provision is recognised on temporary tax differences resulting from investments in subsidiary and affiliated entities and in joint ventures unless the Group is able to control the reversal moment of such temporary difference and it is probable that in the foreseeable future the temporary difference is not reversed. Deferred income tax asset for deductible temporary differences related to such investments and interests is recognised to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilised.

The carrying value of the deferred income tax asset is subject to review as at each balance sheet date and when the anticipated future taxable profit is not sufficient to recover the asset or a part thereof, the value is reduced accordingly.

The deferred income tax asset and provision are calculated at the tax rates that will be applicable when such asset is realised or liability becomes due, in accordance with the tax regulations (rates) applicable legally or actually as at the balance sheet date. The measurement of deferred income tax assets and liabilities reflects tax consequences of the method according to which the Group expects to recover or settle the carrying value of deferred income tax assets and liabilities as at the date of the Financial Statements.

The deferred income tax assets and liabilities are set-off when there is a right to set-off current income tax assets against current income tax liabilities, as long as such items are taxable by the same tax authority and the Group intends to settle its income tax assets and liabilities at net amounts.

Current and deferred income tax for the current accounting period

Current and deferred income tax is recognised as income or expense in the profit and loss account, except to the extent that the tax arises from items recognised directly in equity, in which case the income tax is also recognised in equity, or from the initial recognition of business combinations. In the case of business combinations, tax consequences are taken into account for goodwill calculation or determination of the fair value of the acquiring entity’s share in identifiable assets, liabilities and contingent liabilities of the acquired entity in excess of the acquisition cost.

- **Tangible fixed assets**

Fixed assets and fixed assets under construction are initially recognised at acquisition cost or manufacturing cost.
As at the balance sheet date, fixed assets are recognised at acquisition cost or manufacturing cost reduced by accumulated depreciation and impairment losses.
Fixed assets under construction are recognised as at the balance sheet date at acquisition cost or manufacturing cost.
Depreciation rates are applied in order to reduce the acquisition cost or manufacturing cost of assets other than fixed assets under construction. Such write-downs are made using the linear method over assets' useful life, starting from the month following the month a fixed asset was taken over for use. Estimated useful life, residual values and depreciation methods are subject to review at the end of each year and the results of any changes to estimates are recognised prospectively.
In accordance with the materiality principle, fixed assets with the initial value under PLN 2,000 are expensed in the month following the month in which such fixed assets were taken over for use.
Assets held pursuant to finance lease contracts are depreciated over a period of their anticipated useful economic life in accordance with the same principles as the Company's own assets, however, not longer than until the end of the lease contract.
Profit or loss resulting from disposal / liquidation or withdrawal from use of tangible fixed assets is the difference between disposal proceeds and the carrying value of such items and is recognised in the profit and loss account.

- **Investment properties**

Investment properties are the properties that generate rental revenues and/or are held with the anticipation that they will grow in value. Investment property is initially recognised at acquisition cost.
As at the balance sheet date, investment property is recognised at acquisition cost reduced by accumulated depreciation and impairment losses.

- **Intangible Assets**

Intangible assets acquired by separate purchase

Intangible assets acquired in separate transactions are recognised at historical cost reduced by accumulated amortisation and accumulated impairment losses. Amortisation is applied using the linear method over the anticipated useful life of the assets. The estimated useful life and the related amortisation are reviewed at the end of each annual reporting period and the effects of changes in estimates are recognised in future reporting periods.

Intangible assets acquired through business combinations

Intangible assets acquired as part of a business combination are identified and recognised separately from the goodwill if they comply with the definition of intangible assets and if their fair value can be reliably assessed. The cost of such assets is equivalent to their fair value as at the acquisition date.

After the initial recognition, the assets are disclosed at historical cost reduced by amortisation and accumulated impairment losses in the same manner as intangible assets acquired in separate transactions. Intangible assets with indefinite useful life are subject to impairment tests each year.

- **Impairment of tangible fixed assets and intangible assets excluding goodwill**

As at each balance sheet date, the Group reviews the carrying values of its fixed assets and intangible assets to identify any indications of impairment. Where there is an indication of impairment, the recoverable amount of an asset is calculated to determine a potential impairment loss. Where an asset does not generate cash flows that are largely independent of those generated from other assets, such an analysis is performed for cash generating unit (CGU) of which such an asset is part. If it is possible to identify a reliable and uniform allocation basis, fixed assets held by the Group are allocated to specific CGUs or to smallest groups of CGUs for which a reliable and uniform allocation basis may be identified.

With respect to intangible assets with indefinite useful life, impairment tests are performed annually and, additionally, when there is an indication of possible impairment.

The realisable value is the higher of: the fair value less selling costs or the value in use. The latter is equivalent to the present value of future cash flows discounted with a gross discount rate accounting for the time value of money and the risk specific for each asset.

If the recoverable amount is lower than the carrying value of an asset (or CGU), the carrying value of the asset or CGU is reduced to the recoverable value. Impairment loss is recognised forthwith as the cost of the period in which it occurred with the exception of a situation when an asset is recognised at its revalued amount (then the impairment is treated as a reduction to the prior revaluation).

If an impairment write-down is subsequently reversed, the net value of the asset (or unit generating cash flows) is increased to the new estimated realisable value not exceeding, however, the book value of the asset that would have been recognised if no impairment of the asset / cash generating unit had been previously recognised. Impairment reversal is recognised forthwith in the profit and loss account as long as the asset was not revalued earlier – in such case, the reversal of impairment is treated as an increase in revaluation.

- **Inventories**

Inventories are recognised at the lower of: purchase price/ manufacture cost or net sale price.
NRV is the realisable price as at the balance sheet date net of VAT.
Inventories include goods, materials and finished products. Goods and materials are disclosed at acquisition cost, including the purchase price increased by import duties, costs of transportation, loading, unloading and other costs directly related to acquisition of the goods and materials less any discounts and rebates.
The manufacture costs of products include costs directly related to a product unit and appropriately allocated variable and fixed manufacturing overheads. Variable manufacturing overheads are allocated to a product unit on the basis of the current use of the manufacturing machinery and equipment. Fixed manufacturing overheads are allocated on the basis of normal use of production capacity. Rotation of goods and materials follows the weighted average and FIFO method, while rotation of products follows the FIFO method.
NRV is the realisable price as at the balance sheet date net of VAT.

- **Provisions**

Provisions are recognised when the Group has present obligations (legal or contractual) that result from past events, the Group will probably have to pay them and the amount can be reliably assessed.

The recognised provision reflects most accurately the estimated expenditure required to settle the present obligation as at the balance sheet date, taking into account the underlying risk and the related uncertainty. If the provision is assessed using the estimated cash flows required to settle the present obligation, the carrying value is equal to the present value of the cash flows.

If it is probable that economic benefits required to cover the provisions may be recovered from a third party in part or in whole, such receivable is recognised as an asset provided the probability of recovering such amount is high enough and the amount can be reliably assessed.

Warranty obligations

Provisions for costs of warranty repairs are recognised at the time of sale of products, taking into account the management's best estimate as to the future costs to be incurred by the Group during the warranty period.

- **Financial assets**

Investments are recognised on the purchase date and derecognised on the disposal date if a contract requires that they are delivered on a date determined by a given market; the initial value is measured at fair value reduced by transaction costs with the exception of those assets that are classified as financial assets originally measured at fair value through profit and loss account.

Financial assets are classified in the following categories: financial assets originally at fair value through profit and loss account; investments kept until maturity, financial assets available for resale as well as loans and receivables. The classification depends on the nature and application of financial assets which is determined at initial recognition.

Effective interest rate method

This is a method to calculate the amortised costs of financial assets and to allocate interest income in relevant periods. The effective interest rate is the rate discounting estimated future cash flows over the anticipated useful life of a financial asset or over a shorter time, if justified.

Income from debt instruments other than financial assets measured at fair value through profit and loss account is recognised at the effective interest rate.

Financial assets measured at fair value through comprehensive income statement

This group includes available-for-sale financial assets or assets measured at fair value through profit and loss account.

A financial asset is classified as available for sale if:

- it has been acquired primarily for resale in the near future; or
- it is a part of a portfolio of financial instruments managed by the Group as a whole, in compliance with the current and actual model to generate short-term profit; or
- it is a derivative instrument not classified as a hedging instrument.

A financial asset other than available for sale may be classified as measured at fair value through profit and loss at initial recognition if:

- such classification eliminates or materially reduces inconsistency of valuation or recognition occurring in other circumstances; or
- the financial asset is a part of a group of financial assets or liabilities or both that are managed and its performance is evaluated on a fair value basis in accordance with the documented risk management strategy or investments of the Group within which information on asset groups is transferred internally; or
- the asset is a part of a contract containing one or more embedded derivative instruments and IAS 39 allows the classification of the entire contract (an asset or a liability) to be measured at fair value through profit and loss account.

Financial assets measured at fair value through profit and loss account are disclosed at fair value and the resultant profit or loss is recognised in the profit and loss account. Net profit or loss recognised in the profit and loss account include dividend or interest generated by a specific financial asset.

Held-to-maturity investments

Commercial papers and debentures with fixed or determinable payment terms and with fixed maturity dates that the Group intends to and is able to hold to maturity are classified as investments held to maturity. Such investments are recognised at amortised historical cost using the effective interest rate less impairment, while the income is recognised using the effective income method.

Financial assets available for sale

Listed stocks and redeemable commercial papers held by the Group that are traded in an active market are classified as assets available for sale and measured at fair value. Profit and loss resulting from changes in fair value are recognised directly in equity as revaluation reserve with the exception of impairment losses, interest accrued at the effective interest rate and FX gains and losses on cash assets that are recognised directly in profit and loss account. If an investment is sold or impaired, the accumulated profit or loss previously recognised in revaluation reserve is transferred to the profit and loss for the reporting period.

Dividend on equity instruments available for sale is recognised in profit and loss account when the Group is awarded right to the dividend.

The fair value of available-for-sale cash assets denominated in foreign currencies is determined by translating the amounts at the spot rate as at the balance sheet date. Change in fair value attributable to FX differences resulting from a change in the amortised historical cost of a given asset is recognised in profit and loss account while other changes are recognised in equity.

Loans and receivables

Trade receivables, loans and other receivables with fixed or determinable payment terms that are not quoted in an active market are classified as “loans and receivables”. They are measured at amortised cost using the effective interest method and by taking impairment into account. Interest income is recognised using the effective interest rate with the exception of short-term receivables where interest recognition would be immaterial.

Impairment of financial assets

Financial assets – apart from those measured at fair value through profit and loss – are tested for impairment at each balance sheet date. Financial assets are impaired when there are objective indications that events occurring after the initial recognition of an asset have adversely affected the related estimated future cash flows. With respect to financial assets recognised at amortised historical cost, impairment is the difference between the carrying value and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

The carrying value of a financial asset is reduced directly with an impairment charge with the exception of trade receivables whose book value is reduced with charges to a specially designated account. The charges apply to trade receivables deemed as uncollectible; when they are collected, such amounts are credited to the account. Changes in the carrying value of the charge account are recognised in profit and loss account.

If in a subsequent period, the amount of impairment charges is reduced and the reduction may be objectively related to an event that occurred after the impairment charge, the impairment charge shall be reversed through the profit and loss account to the extent corresponding to the reversed carrying value as of the impairment date and up to the amount of the amortised historical cost that would have been recognised had it not been for the impairment. The above applies to all assets with the exception of available-for-sale equity instruments. In this case, an increase in fair value following impairment is recognised directly in equity.

De-recognition of financial assets

The Group derecognises financial assets only after expiry of any contractual rights to cash flows generated by such assets or when such financial assets substantially with all their related risk and all rewards have been transferred to another entity. If the Group does not transfer nor retains substantially all risk and all rewards related to a financial asset and retains control of such asset, it recognises the retained share in such asset and the related obligations of potential payments. However, if the Group retains substantially all risk and all rewards related to such a transferred asset, it continues to recognise the financial asset and any secured loans underlying the received income.

- **Financial liabilities and equity instruments issued by the Group**

Classification as debt or equity

Debt and equity instruments are classified as financial liabilities or as equity, subject to contractual agreement.

Equity instruments

Equity instruments include any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. They are recognised at the amounts received less direct issue costs.

Financial liabilities

Financial liabilities are classified either as financial liabilities measured at fair value through profit and loss account or as other financial liabilities.

Financial liabilities measured at fair value through profit and loss

This category includes available-for-sale financial liabilities or liabilities defined as measured at fair value through profit and loss account.

A financial liability is classified as available for sale if:

- it has been contracted to be repurchased within a short time;
- it is a part of a portfolio of financial instruments managed by the Group as a whole, in compliance with the current and actual model to generate short-term profit; or
- it is a derivative instrument not classified as a hedging instrument.

A financial liability other than available for sale may be classified as measured at fair value through profit and loss at initial recognition if:

- such classification eliminates or materially reduces the inconsistency of valuation or recognition occurring in other circumstances; or
- the financial asset is a part of a group of financial assets or liabilities or both that are managed and its performance is evaluated on a fair value basis in accordance with the documented risk management strategy or investments of the Group within which information on asset groups is transferred internally; or

- it is a part of a contract containing one or more embedded derivative instruments and IAS 39 allows classification of the entire contract (an asset or a liability) to be measured at fair value through profit and loss account.

Financial liabilities measured at fair value through profit and loss are stated at fair value and the resultant financial profit or loss is recognised in the profit and loss account including interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including bank loans and borrowings, are initially measured at fair value net of transaction costs.

Subsequently, they are recognised at the amortised historical cost using the effective interest rate method and interest expense is recognised using the effective income method.

The effective interest method is used to calculate amortised cost of a liability and to allocate interest expenses to the relevant periods. The effective interest rate is a rate discounting future cash payments over the foreseeable useful life of a liability or over a shorter time, if required.

Derivatives

The Group uses FX term forward or swap contracts to hedge against FX risk and interest rate risk.

Derivative instruments are recognised at fair value as of the date of the contract and subsequently they are re-measured to fair value as at each balance sheet date. The resultant profit or loss is immediately recognised in profit and loss account.

Derivative instruments not designated as effective hedging instruments are classified as current assets or liabilities.

Hedge accounting

The Group applies hedge accounting for the protection against FX risk consisting in hedging future cash flows. The purpose of hedge accounting is to minimise the FX risk connected with the sale of goods purchased in a foreign currency (EUR and USD) the prices of which are indexed to the domestic currency for companies within the Group (PLN for AB S.A. and CZK for ATC Holding). Hedging includes specified items of receivables, liabilities, bank loan, cash and FX Forward contracts for currency sale/purchase – items expressed in the relevant currency.

In line with the accounting principles adopted, the results of changes in the valuation of hedging instruments insofar as they function as effective collateral are charged to revaluation reserve and then they adjust revenues from sale. The results of balance-sheet valuation of hedging instruments are recognised in the other comprehensive income statement.
Since August 2015 the Group has been applying hedge accounting for cash flows and fair value against interest rate risk (WIBOR risk) and FX risk (CZK/PLN) to hedge future cash flows related to the loan granted within the Group. To this end an FX interest rate swap transaction has been concluded.
The effects of changes in the measurement of the hedged positions to the extent they constitute an effective hedge are recognised in the revaluation reserve (cash flow accounting) and recognised as profit or loss of the current period (fair value accounting). The profit and loss related to the hedged position resulting from the hedged risk is also recognised as profit or loss of the current period, respectively.

The Group mitigates the level of FX risk by executing forward currency contracts (outright and NDF). Hedging transactions are executed in line with the procedures applicable in the AB Group and are always reflected in the open position exposed to the FX risk. The Group uses derivative instruments only for the purpose of hedging its operational activities.

- **Critical accounting judgements and the basis for estimation of uncertainty**

Using the accounting rules applicable within the Group, as specified in Note 2, the Management has to make judgements, estimates and assumptions concerning the carrying value of assets and liabilities that cannot be assessed otherwise on the basis of available sources. Estimates and their underlying assumptions are based on historical experience and other factors deemed as material. The actual results may differ from the assumed estimates.

Estimates and the underlying assumptions are subject to ongoing review. Changes in estimated values are recognised in the period of the review if they apply solely to such a period or in the current period and future periods if the changes apply both to a current period and to future periods.

- **Critical accounting judgements**

The basic assumptions for the future and other factors underlying the estimation of uncertainty as at the balance sheet date that affect the risk of major adjustments in the carrying value of assets and liabilities in the next financial year are presented below.

Impairment of goodwill

In order to verify whether goodwill has been impaired, an estimate of the value in use of all cash-generating units to which the goodwill has been attributed needs to be made. To calculate the value in use, the Company needs to estimate future cash flows attributable to a unit and determine an appropriate discount rate as required to calculate the present value of such cash flows.
As at the balance sheet date, the book value of goodwill was PLN 42.5 million.

Intangible assets with indefinite useful life

Intangible assets with indefinite useful life are annually tested for impairment at the level of cash generating units. As at the balance sheet date, the Group holds intangible assets with indefinite useful life that amount to PLN 21.9 million.

Asset impairment

As at each balance sheet date, the Group verifies if there are any indications of impairment of non-financial assets. Assessment of the value in use consists in identifying future cash flows by a centre generating cash flows and requires the determination of a discount rate to calculate the present value of such cash flows.
As at 30 September 2015, in the opinion of the Management of the Group, no assets held by the Group were impaired.

Useful life of tangible fixed assets

The depreciation / amortisation rates are determined on the basis of the anticipated economic useful life of tangible fixed assets and intangible assets. Annually, the approved economic useful life is subject to review on the basis of current estimates. As at the balance sheet date, the fixed assets amounted to PLN 190 million.

Assessment of provisions for employee benefits

Provisions for employee benefits (provision for retirement allowance) were assessed using actuarial methods.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is measured using the appropriate valuation techniques. The Group uses professional judgement to select adequate methods and to make assumptions. The Management Board makes a judgement selecting an appropriate method to measure financial instruments not quoted in an active market. Methods applied are commonly used by market players. With respect to financial derivative instruments, the assumptions are based on market rates adjusted for instrument-specific features. Other financial instruments are measured at discounted cash flows on the basis of assumptions confirmed to the extent possible with observable prices or market rates.

Deferred income tax asset

The Company recognises a deferred income tax asset assuming that taxable profit will be generated in the future to utilise the asset. Material deterioration of the generated taxable profit in the future could render this assumption unjustified.

Impairment of receivables and inventories

As at the balance sheet date, the Group assesses if there is objective evidence of impairment of receivables, groups of receivables and inventories. If the realisable amount of an asset is below its carrying value, a given unit recognises an impairment loss down to the present value of anticipated cash flows.

3. Operational segments

The basic reporting presentation of the Group is based on geographical segments.

Geographical segments

The three key divisions of the Company operate in three basic geographical areas: A, B, and C. The composition of each geographical segment is as follows:

Area A Poland	In Area A the Group operates wholesale outlets.
Area B Czech Republic	In Area B the Group operates wholesale and retail outlets and manufacturing facilities.
Area C Slovakia	In Area C the Group operates wholesale outlets.

The Group's revenues from external sales and information on assets in each geographical segment are presented below.

Revenues per segment

	External sales	Sales between segments	Other	Total
	Period ended on 30.09.2016	Period ended on 30.09.2016	Period ended on 30.09.2016	Period ended on 30.09.2016
	PLN'000	PLN'000	PLN'000	PLN'000
Poland	1,107,118	77,701		1,184,819
Czech Republic	702,479	91,640		794,119
Slovakia	65,064	31		65,095
Total segments				2,044,033
Eliminations				169,372
Consolidated revenues				1,874,661

	External sales	Sales between segments	Other	Total
	Period ended 30.09.15	Period ended 30.09.15	Period ended 30.09.15	Period ended 30.09.15
	PLN'000	PLN'000	PLN'000	PLN'000
Poland	850,348	62,088		912,436
Czech Republic	578,358	125,658		704,016
Slovakia	76,287	-10		76,277
Total segments				1,692,729
Eliminations				187,736
Consolidated revenues				1,504,993

The selling prices between segments are comparable to the prices applied in external sales of similar products.

Assets and liabilities per segment

	Assets	Liabilities
	30.09.16	30.09.16
	PLN'000	PLN'000
Poland	1,250,795	849,678
Czech Republic	630,367	432,560
Slovakia	39,328	39,492
Total segments	1,920,490	1,321,730
Eliminations		
Non-allocated		
Consolidated	1,920,490	**1,321,730**

Results per segment

	Of which interest expense / income	Period ended on 30.09.2016
	PLN'000	PLN'000
Continued operations		
Poland	-3,017	9,876
Czech Republic	-753	7,419
Slovakia	1	-10
Eliminations		
Non-allocated		
Profit before income tax		17,285
Income tax		3,139
Profit for the financial year on continued operations		14,146
Discontinued operations		
Profit before income tax		
Income tax		
Profit for the financial year on discontinued operations		
Profit for the financial year		14,146

Depreciation per segment

	Acquisition of fixed assets	Period ended on 30.09.2016
	PLN'000	PLN'000
Continued operations		
Poland	3,204	2,715
Czech Republic	796	779
Slovakia	0	4
Consolidated	4,000	3,498

Information on products and services

The business of the Group is split into:

- wholesale trade in computer, telecommunications, multimedia, and electronic equipment,
- retail trade in computer hardware
- personal computer manufacturing

	Revenues from sales to external customers	Assets per segment	Acquisition of fixed assets
	Period ended on 30.09.2016	Period ended on 30.09.2016	Period ended on 30.09.2016
	PLN'000	PLN'000	PLN'000
Wholesale trade	1,848,854	1,776,765	1,445
Retail trade	14,513	10,743	2
Production	11,294	132,982	2,553
	1,874,661	1,920,490	4,000

	Revenues from sales to external customers	Assets per segment	Acquisition of fixed assets
	Period ended 30.09.15	Period ended 30.09.15	Period ended 30.09.15
	PLN'000	PLN'000	PLN'000
Wholesale trade	1,484,515	1,622,762	8,706
Retail trade	18,972	14,484	3
Production	1,506	3,415	-
	1,504,993	1,640,661	8,709

The selling prices between segments are comparable to the prices applied in external sales of similar products.

4. Operations in the interim period

The seasonal fluctuations of individual items affecting the financial result in the period covered by the Report reflect the market trends from the preceding years.

5. Earnings per share

	Period ended on 30.09.16	Period ended on 30.09.15
	PLN per share	PLN per share
Basic profit per share		
From continuing operations	14,146	13,073
From discontinued operations		
Total basic profit per share	0.87	0.81
Diluted profit per share	14,146	13,073
From continuing operations		
From discontinued operations		

Total diluted profit per share	0.87	0.81

Basic profit per share

Basic profit per share is calculated by dividing the net profit for the period attributable to the shareholders of the parent entity by the weighted average number of shares in the reporting period.

	Period ended on 30.09.16 PLN'000	Period ended on 30.09.15 PLN'000
Profit for the financial year attributable to the shareholders of the parent entity	14,146	13,073
Profit used to calculate the total basic profit per share	14,146	13,073
Profit used to calculate the total basic profit per share on continuing operations	14,146	13,073

	Period ended on 30.09.16 PLN'000	Period ended on 30.09.15 PLN'000
Average weighted number of the ordinary shares used to calculate the basic profit per share	16,187,644	16,187,644

6. DIVIDEND

No dividend was distributed to shareholders in the interim period.

7. TANGIBLE FIXED ASSETS – INCREASE

	AB S.A.	Rekman Sp. z o.o.	Alsen Marketing Sp. z o.o.	B2B Sp. z o.o.	ATC Holding
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Land					
Buildings					
Structures					
Plant and equipment	35				480
Motor vehicles	583				153
Equipment	26		2		7
Intangible Assets	5				95
Fixed assets / intangible assets under construction				2,553	61
TOTAL	**649**		**2**	**2,553**	**796**

8. INVESTMENTS IN AFFILIATED ENTITIES

In the reviewed period, the Group did not carry out any investments in its affiliated entities.

9. GOODWILL

	Period ended on 30.09.16	Period ended on 30.09.15
	PLN'000	PLN'000
Cost		
As at the beginning of the financial year	44,386	41,914
Goodwill from business combination		
FX differences	-1,009	555
As at the end of the financial year	43,377	42,469
Accumulated impairment charges		
As at the beginning of the financial year		
As at the end of the financial year		
Book value		
Opening balance		
Closing balance	43,377	42,469

The goodwill was generated as a result of acquisition of 100% shares on 30 October 2007 in AT Computers Holding a.s. with its registered office in Ostrava, which holds 100% shares in the following entities:
- AT Computers, a.s. with its registered office in Žilina, Slovakia,
- AT Campus s.r.o. with its registered office in Ostrava, Czech Republic,
- AT Computer s.r.o. with its registered office in Ostrava, Czech Republic,
- Comfor Stores a.s. with its registered office in Brno, Czech Republic

and as a result or the acquisition on 30 September 2013 of 100% shares in Rekman Sp. z o.o. with its registered office in Wrocław.

10. HEDGE ACCOUNTING

Financial derivatives and hedges

Forward contracts are used as the derivative instruments to hedge the Group against FX risk. They are stated at fair value. Derivative instruments are disclosed as financial assets or liabilities depending on their current value.

Changes in the fair value of derivative instruments that do not meet the requirements of hedge accounting are recognised directly in profit and loss account of the current reporting period.

Derivative hedging instruments are used to hedge future cash flows.

When a hedge is established, the Group formally identifies and documents the hedging relationship, the objective of risk management and the hedging strategy in accordance with the approved hedge accounting policy.

The cash flow hedge is an operation hedging the risk of volatility of cash flows relating to a hedged asset or liability, a planned probable future transaction or a probable future liability that could affect profit and loss account.

Profit or loss resulting from changes to the fair value of hedging instruments that do not meet the requirements of hedge accounting are recognised directly in the profit and loss account of the current reporting period.

AB S.A. has issued PLN corporate bonds on the Polish market. Moreover, an intragroup loan has been granted to the subsidiary AT Computers Holding a.s. in CZK.
In order to hedge future cash flows against interest rate risk and FX risk, AB S.A. concluded a financial instrument with BZ WBK S.A. in the form of an FX and interest rate swap contract. In this connection, on 28 August 2015 the Company implemented hedging accounting for cash flows and fair value.

Cash flow hedges

The Group hedges FX risk related to sales indexed to EUR and USD exchange rates by using FX cash positions – trade payables, liabilities under bank loans, trade receivables, cash and FX forward contracts for currency sale/purchase.

The Group identifies those cash positions as cash flow hedging instruments. For the purposes of hedge accounting, only instruments concluded with external entities are designated as hedging instruments:

Hedging instruments – EUR

Instrument type	**Nominal value, EUR thousand**		**Fair value, PLN thousand***		**Anticipated maturity period of hedged position**	
	30.09.2016	**30.09.2015**	**30.09.2016**	**30.09.2015**	**30.09.2016**	**30.09.2015**
Trade payables	(81,877)	(99,179)	(353,068)	(420,430)	October, November	October, November December
Trade receivables	20,195	10,660	87,089	45,191	October, November	October, November
Bank loans	(20,344)	(4)	(87,731)	(15)	October, November	October, November
Cash	3,459	3,169	14,916	13,430	October, November	October, November
FX Forward EUR	(13,780)	(59,142)	56	(1,148)	October, November	October, November
Total cash positions:	**(92,347)**	**(144,496)**	**(338,738)**	**(362,972)**		

Hedging instruments – USD

Instrument type	**Nominal value, USD thousand**		**Fair value, PLN thousand***		**Anticipated maturity period of hedged position**	
	30.09.2016	**30.09.2015**	**30.09.2016**	**30.09.2015**	**30.09.2016**	**30.09.2015**
Trade payables	(18,002)	(17,372)	(69,466)	(65,654)	October, November	October, November
Trade receivables	2,118	1,740	8,178	6,576	October, November	October, November
Bank loans	(4,254)	-	(16,404)	-	October, November	October, November
Cash	245	181	944	684	October, November	October, November
FX Forward EUR	1,906	(5,437)	36	(35)	October, November	October, November
Total cash positions:	**(17,987)**	**(20,888)**	**(76,712)**	**(58,429)**		

** For items other than FX Forward derivative transactions carrying values were stated as they are not materially different from the relevant fair values.*

An analysis of changes in fair value of hedging instruments recognised in equity is provided in the table below:

	3 months until 30.09.2016	3 months until 30.09.2015
Gross amount recognised in equity at the beginning of the period	(8,715)	(6,299)
Net amount recognised in equity at the beginning of the period	(7,059)	(5,102)
Effective portion of profit/loss on the derivative instrument in the period recognised in equity	(13,656)	(7,135)
Amounts derecognised from equity and recognised in the profit and loss account during the period, of which:	3,921	(6,796)
- adjustment of revenues from operating activities	2,327	(5,588)
- adjustment of revenues from financing activities	1,593	(1,208)
- adjustment due to hedge ineffectiveness	-	-
Gross amount recognised in equity at the end of the period	1,021	(6,639)
Deferred income tax provision	(194)	1,261
Net amount recognised in equity at the end of the period	827	(5,377)

Hedging of cash flows and fair value against FX rate risk and interest rate risk

The Group is exposed to FX risk in CZK related to the loan granted in CZK and to interest rate risk. The risks were secured with a cross currency interest rate swap in line with the hedging policy applied in the Group.

Hedging instrument – FX interest rate swap

Cross currency interest rate swap	**Carrying value/fair value PLN'000**		**Anticipated realisation period:**	
	30-09-2016	**30-09-2015**	**30-09-2016**	**30-09-2015**
Premium/Accrued interest	215	112	interest payable semi-annually by 28 July 2020, final exchange of nominal amounts on 28 July 2020.	interest payments in semi-annual periods by 28 July 2020, final exchange of nominal amounts on 28 July 2020-
valuation	-3,453	-1,739		
Total	**-3,238**	-1,627		

Analysis of changes to the fair value of the hedging instruments

An analysis of changes in fair value of the instruments hedging FX and interest rate risk recognised in equity is provided in the table below:

Cash flow hedge PLN thousand	3 months to 30.09.2016	3 months to 30.09.2015
Gross amount recognised in equity at the beginning of the period:	(1,321)	-
Net amount recognised in equity at the beginning of the period:	(1,070)	-
Amount transferred from equity and recognised in the financial result for the period:	310	112
Ineffectiveness recognised in the financial result underlying cash flow hedges	(1)	(3)
Gross amount recognised in equity at the end of period	(1,928)	(1,826)
Net amount recognised in equity at the end of period	(1,561)	(1,480)

Analysis of changes to the fair value of the instruments hedging FX and interest rate risk recognised in P&L:

Fair value hedge PLN thousand	3 months to 30.09.2016	3 months to 30.09.2015
Profit/loss on the hedging instrument	(1,524)	90
Profit/loss on the hedged position related to the hedged risk	1,524	(90)

11. LOANS AND BORROWINGS:

In the period from the publication of the Annual Report (19 September 2016) until the publication of the report for the first quarter of the financial year 2016/2017, the Group Companies contracted the following new loans:

- on 29.09.2016 AB S.A. signed an annex increasing the overall credit limit in PLN, USD, EUR with ING Bank Śląski up to PLN 80 M by 20.01.2017. From 21.01.2017 the limit will amount of PLN 60 M.
- on 26.10.2016 AB S.A. and Rekman Sp. z o.o. signed an annex to the Mutiline agreement with Bank Zachodni WBK increasing the limit for L/Cs and bank guarantees up to PLN 31 M (an increase by PLN 10 M).

12. ISSUED CAPITAL

During the period under review, there were no changes in the Company's issued capital.

13. DISPOSAL OF SUBSIDIARY COMPANIES

During the period under review, the Group did not sell any subsidiary entities.

14. TAKEOVER OF SUBSIDIARY COMPANIES

During the period under review, the Group did not take over any subsidiary entities.

15. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at the balance sheet date, the amount of off-balance sheet liabilities was as follows:

	PLN '000
	30.09.2016
Guarantees granted	35,994
Total	**35,994**

Details are provided in item 8 of Additional Information.

16. EVENTS AFTER THE REPORTING DATE

After the balance sheet date, there were no material events that haven't been included in the Interim Financial Statements.

17. TRANSACTIONS WITH RELATED ENTITIES

In the period from 1 July 2016 to 30 September 2016, there were no transactions other than concluded at arm's length.

XIV) ADDITIONAL INFORMATION

The additional information is required to be disclosed pursuant to the Regulation of the Minister of Finance of 19 February 2009 on current and periodical information disclosed by issuers of securities and conditions of recognition as equivalent of information required by the law of non-member states.

1. ORGANISATION OF THE GROUP WITH IDENTIFICATION OF THE CONSOLIDATED ENTITIES

1.1. The entities of the AB S.A. Group (with information on consolidation method or share valuation)

As at 30 September 2016, the Group was composed of the following entities:

Parent entity

- AB S.A. (parent entity)
- The Company's business consists in distribution of computers and electronic equipment in Poland and abroad.

Address of the registered office:	ul. Europejska 4, 55 040 Magnice
Statistical number (REGON):	931908977
Tax identification number (NIP):	895-16-28-481
Registration authority:	District Court for Wrocław – Fabryczna, 6th Commercial Division of the National Court Register. The entry to the register was made on 22.10.2001 under KRS number 0000053834.
Duration of the Company:	unlimited.

Subsidiary entities

- Alsen Sp. z o.o. (AB S.A. owns 100% of shares) – subject to consolidation
  The Company engages in marketing and training activities.

- Alsen Marketing Sp. z o.o. (AB S.A. owns 100% of shares) – subject to consolidation
  The Company arranges retail sales of computers and electronic equipment, it carries out retail sales of computers and electronic equipment, it arranges a franchise network and carries out marketing operations.

- B2B IT Sp. z o.o. (AB S.A. owns 100% of shares) – subject to consolidation

- AT Computers Holding a.s. (AB S.A. owns 100% of shares) – subject to consolidation
  The Company manages subsidiary entities.

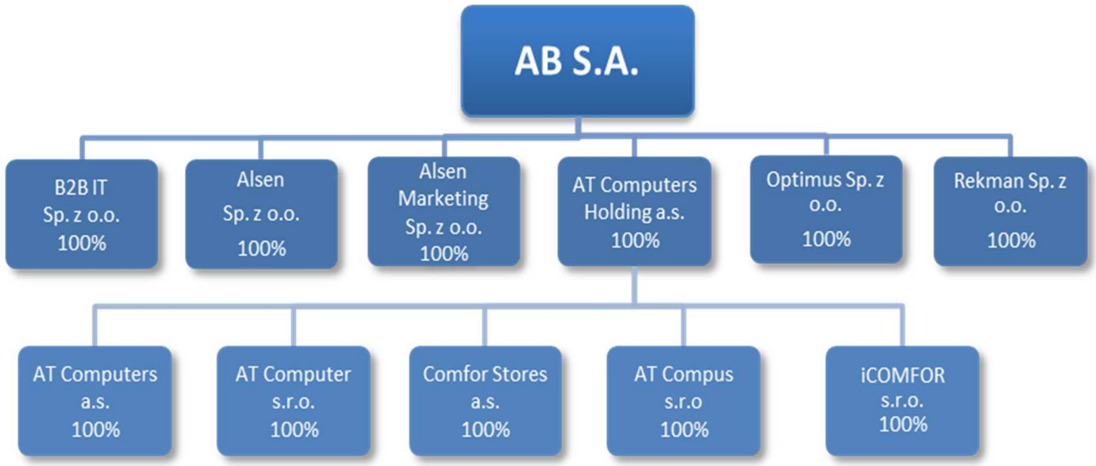
- AT Computers a.s. (AT Computers Holding a.s. owns 100% of shares) – subject to consolidation
  The Company's business consists in distribution of computers and electronic equipment in the Czech Republic and abroad.

- AT Compus s.r.o. (AT Computers Holding a.s. owns 100% of shares) – subject to consolidation
  The Company's business consists in assembly of computers from ready sub-assemblies. Finished products are re-sold to distribution companies for further resale.

- Comfor Stores a.s. (AT Computers Holding a.s. owns 100% of shares) – subject to consolidation
  The Company's business consists in retail trade in computers and electronic materials.

- AT Computer s.r.o. (AT Computers Holding a.s. owns 100% of shares) – subject to consolidation
  The Company's business consists in distribution of computers and electronic equipment in the Slovak Republic.
- iCOMFOR s.r.o. (AT Computers Holding a.s. owns 100% of shares) – subject to consolidation
  The Company's business consists in retail trade in computers and electronic materials.
- Optimus Sp. z o.o. (AB S.A. owns 100% of shares) – subject to consolidation
  The Company's business consists in the production of computers, servers, and network equipment; it also develops a franchise network for small and medium-sized IT integrators.
- Rekman Sp. z o.o. (AB S.A. owns 100% of shares) – subject to consolidation
  The Company is involved in wholesale of toys and board games for children.

1.2. Structure of the Group



2. Effects of changes in the structure of the Group

In Q1 of the financial year 2016/2017 the structure of the AB Group did not change.

3. Position of the Management Board on the feasibility of previously published forecasts

The Group has not published any result forecasts for the current year.

4. Shareholders holding minimum 5% of the overall number of votes at Issuer's General Meetings

To the Issuer's best knowledge, the shareholding structure of the parent company as at the Quarterly Report's publication date was as follows:

As at 14.11.2016	Number od shares	Shareholding structure by the number of shares	Number of votes	Shareholding structure by the number of votes
Andrzej Przybyło	1,316,200	8.13%	2,629,200	15.02%
Iwona Przybyło	1,749,052	10.80%	1,749,052	9.99%
Aviva OFE Aviva BZ WBK	2,118,514	13.09%	2,118,514	12.11%
Aviva Investors Poland S.A.	1,002,723	6.19%	1,002,723	5.73%
Nationale-Nederlanden OFE	2,291,911	14.16%	2,291,911	13.10%
PKO BP Bankowy OFE	931,014	5.75%	931,014	5.32%
Other	6,778,230	41.88%	6,778,230	38.73%
Total	**16,187,644**	**100.00%**	**17,500,644**	**100.00%**

In the period between the disclosure of the Annual Report and the publication of the Quarterly Report, there were no changes in the holding of major blocks or the number of votes at General Meetings.

5. Issuer's shares or rights to shares held by persons managing and supervising the Issuer

- **Shares held by managing and supervising persons**

The Issuer's shares or rights to shares held by persons managing and supervising the Issuer's business as at the date when this Quarterly Report was published (14 November 2016):

As at 14.11.2016	Number of shares	Shareholding structure by the number of shares	Number of votes	Shareholding structure by the number of votes
		Management Board		
Andrzej Przybyło	1,316,200	8.13%	2,629,200	15.02%
Krzysztof Kucharski	25,000	0.15%	25,000	0.14%
Zbigniew Mądry	0	0.00%	0	0.00%
Grzegorz Ochędzan	0	0.00%	0	0.00%
		Supervisory Board		
Iwona Przybyło	1,749,052	10.80%	1,749,052	9.99%
Jacek Łapiński	0		0	
Andrzej Grabiński	0		0	

Jakub Bieguński	0	0
Jerzy Baranowski	0	0
Marek Ćwir	0	0

In the period between the publication of the 2015/2016 Annual Report and the publication of the Report for the first quarter of 2016/2017, there were no changes in the shareholding of managing or supervising persons.

6. PROCEEDINGS PENDING IN COURTS, BEFORE ARBITRATION BODIES OR PUBLIC ADMINISTRATION BODIES

None of the AB S.A. Group companies is subject to any proceedings pending in courts, before an arbitration body or public administration body concerning liabilities or receivables exceeding 10% of equity.

7. INFORMATION ON ANY TRANSACTION(S) CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY WITH RELATED ENTITIES OTHERWISE THAN AT ARM'S LENGTH

In the period from 1 July 2016 to 30 September 2016 there were no transactions other than concluded at arm's length.

8. INFORMATION ON LOAN SURETIES, BORROWINGS OR GUARANTEES GRANTED BY THE ISSUER OR ITS SUBSIDIARY ENTITIES

As part of their operations, the Group companies issued bank guarantees.

	PLN '000
	30.09.2016
Guarantees granted	35,994
Total	**35,994**

The table below presents guarantees in their original currency.

Principal	Beneficiary	Guarantee issuer	Cur-rency	Amount	Validity period
AB S.A.	Intel	PKO BP	USD	1 000 000	2017-01-16
AB S.A.	IBM Belgium Financial Services	PKO BP	EUR	1 370 000	2017-07-24
AB S.A.	PFRON	BZ WBK SA	PLN	947 592	2017-11-12
AB S.A.	Skarb Państwa Resortowe Centrum Zarząc	BZ WBK SA	PLN	400 000	2017-02-08
AB S.A.	Samsung Electronics POLSKA	PKO BP	PLN	10 000 000	2017-03-16
AT Computers, a.s.	Celní ředitelství Ostrava	CITIBANK Europe plc	CZK	500 000	2017-05-22
AT Computer SK	Shoping Palace Bratislava, v.o.s.	CITIBANK (Slovakia)	EUR	6 488	2017-06-15
AT Computers, a.s.	ProLogis czech Republic	CITIBANK Europe plc	EUR	271 000	2017-01-13
AT Computers, a.s.	IBM Belgium Financial Services Company S.	HSBC Bank plc	EUR	3 003 000	2017-03-31
COMFOR STORES a.s.	Paladium Praha s.r.o.	CITIBANK Europe plc	EUR	56 011	2017-07-20
COMFOR STORES a.s.	HUTS II s.r.o.	CITIBANK Europe plc	EUR	8 996	2017-04-28
COMFOR STORES a.s.	EKZ Tschechien	CITIBANK Europe plc	EUR	11 915	2017-07-18
COMFOR STORES a.s.	FLORA SEN	CITIBANK Europe plc	EUR	3 101	2017-04-28
COMFOR STORES a.s.	Pradera SC Futurum Ostrava	CITIBANK Europe plc	EUR	12 174	2016-11-02
COMFOR STORES a.s.	Euro Mall Hradec Králové	CITIBANK Europe plc	EUR	12 645	2017-04-28
COMFOR STORES a.s.	Best Properties South, a.s.	CITIBANK Europe plc	CZK	160 592	2016-11-02
COMFOR STORES a.s.	CEI Building	CITIBANK Europe plc	CZK	222 338	2017-04-06
COMFOR STORES a.s.	New Karolina Shopping	CITIBANK Europe plc	CZK	305 000	2017-07-20
COMFOR STORES a.s.	Klepierre Plzeň	CITIBANK Europe plc	EUR	7 840	2016-11-02
COMFOR STORES a.s.	Atrium Flora	CITIBANK Europe plc	EUR	14 535	2017-01-25

The table below presents the nominal amounts of the sureties granted in the original currencies by AB S.A. and ATC Holding to secure repayment of the loans contracted by subsidiary companies (PLN equivalent of sureties granted by AB – TPLN 35,870 and by ATC Holding – TPLN 190,918).

Subsidiary company that received a guarantee	Beneficiary	Currency	Loan amount
B2B IT Sp. z o. o.	ING	PLN	29,870,000
Alsen Marketing Sp. z o.o.	Samsung Electronics Polska Sp. z o.o.	PLN	6,000,000
AT Computers, a.s.	KB a.s.	CZK	800,000,000
AT Computers, a.s.	CITIBANK a.s.	CZK	382,100,000
COMFOR Stores	CITIBANK a.s.	CZK	14,125,305

AB S.A. issued a guarantee for its subsidiary company – AT Computers a.s., in favour of Apple Distribution International with its registered office at Hollyhill Industrial Estate, Hollyhill, Cork (Ireland). The Guarantor provides a guarantee for its subsidiary company – AT Computers, a.s. with respect to the Debtor's financial liabilities related to the sales of goods and services provided by the Beneficiary to the Debtor in the performance of distribution agreements ("Apple Authorised Distribution Agreement" and "iPhone Distribution Agreement"). The guarantee is automatically extended for subsequent annual periods, unless the Beneficiary receives a written termination of the guarantee from the Guarantor not later than 60 days before the end of the annual guarantee validity period. The amount of the guarantee is USD 80,000,000 plus expenses that the Beneficiary may incur, while claiming its receivables from the Debtor or the Guarantor.

9. Other factors affecting the Group's human resources situation, assets, financial standing, results and their changes, as well as information that is material for the assessment of the Parent Company's ability to meet its obligations

- **Major achievements and failures of the Group**

Revenues generated by the Group in Q3 2016 were almost 24.6% higher in relation to the equivalent period last year. Also profitability on operations was slightly higher (TPLN 20,988 as compared to TPLN 20,017 last year), and the net profit was TPLN 14,146 as compared to TPLN 13,073 a year earlier. The low level of costs of sales and of general and administrative expenses (SG&A) distinguishes the Group against its competitors and ensures a significant competitive advantage in a demanding business environment. Cash conversion cycle was shortened to 37 days from 39 day versus the equivalent quarter last year which was due to a slightly shortened turnover of inventories and receivables from 46 to 45 days and from 33 to 32 days respectively. The inventory rotation level was due to an extension of the consumer electronics/household appliances assortment and preparations to handle the increased sales in the next quarter in the segment as well as servicing newly acquired contracts with HP in the Enterprise segment (HP Networking and HP Business Critical System). Under these contracts, the customers and partners of AB S.A. gained access to HPs' complete network offer as well as to critical applications systems based on HP Integrity servers. Additionally, customers and partners may use support of engineers, as well as the knowledge and experience of HP's Development Department that specialises in HP Networking solutions. Additionally, the Group has been consolidating its position in Poland, the Czech Republic and in Slovakia in the "telecom" assortment (accessories, navigation, stationary telephones, mobile phone, smartphones) and in the sphere of advanced products (servers and storage, digital signage, security, software, networks, power supply).

The Group has continued to develop cooperation with counterparties under long-term distribution agreements, but has also focused on new contracts and introduction of new products into its offer. In the financial year of 2015/2016 the Group signed new or extended the existing contract with inter alia the following companies: Lenovo (data centre), Sony (software), Canon (IP protection), iGo3D (3D printing), Samsung (telecom accessories), OKI (printers and consumables) Huawei (telecom accessories), Trust (accessories for players), Kaspersky (software subscriptions), Sophos (security IT devices), Fnatic (accessories for players), Aruba – HP Enterprise (network devices), D-Link Polska (distribution of solutions to develop business infrastructure networks and devices for individual users). In the analyses quarter, the AB Group expended its offer by TP-LINK smartphones and new Samsung Electronics products – Smart Signage screens with diagonal up to 105". In its Smart Signage offer, the Group offers products for projects of individual installations as well as advanced solutions of vision walls. Additionally, the Group signed a contract with Legrand Polska – a producer of electrical installation and IT systems for construction, commercial and industrial construction. Under the contract, the AB Group offers a full range of products and solutions available from Legrand Polska, e.g. UPS, power strips and structural cables that expand and consolidate the distributor's broad offer in power supply devices. The Group has also extended its existing contract with Microsoft by an offer of Microsoft Surface devices and related accessories. The distribution covers both business and consumer products. Microsoft Surface is a line of high class products and accessories dedicated to professionals and individual users. The sub-assemblies used in the tablets provide users with power and all laptop functions. The offer of Microsoft Surface covers: tablets, chargers and docking stations, keyboards, mice and pens, adapters.

The Group keeps extending its product portfolio not only with IT goods but also with consumer electronics, household appliances and toys. For several quarters there has been a noticeable positive impact on the sales of the consumer electronic / household equipment segment where a growth was achieved of 85.3% vs. Q3 last year. That was achieved, inter alia, by expanding the offer in the recent quarters by products under the following brands: Smeg, Fiskars, Redmond, Lafe, Vileda, Philips, iRobot, Samsung and the development of the Kakto franchise network. The Group has been taking steps to improve its profitability, e.g. by improving the performance of its e-sales platforms – AB Online in Poland and ATC Business Link in the Czech Republic and Slovakia – and continuing the development of the low cost e-commerce channel. In comparison with the previous year there was a growth in the number of orders with the XML gates, sales by partners and the number of orders placed in the module supporting sales at Allegro. Additionally, the new logistics centre in Magnice has increased the potential of e-commerce.

The Group has also intensified its efforts to develop the existing franchise networks, including: Alsen, Kakto (consumer electronics/household appliances) in Poland, Comfor in the Czech Republic and Slovakia, Premio in the Czech Republic as well as new projects: in Poland – Optimus (integrators) and Wyspa Szkrabów (toys) and in the Czech Republic – Digimax (mobile and smart home solutions). At present, the network includes almost 1.7 thousand points of sale. In view of the good acceptance of the Digimax franchise network in the Czech Republic, AB increased its expansion targets to 150 locations by the end of 2016; there has also been a dynamic growth of the Wyspa Szkrabów network which currently cooperates with over 77 points of sale.

Additionally, the Group has been developing and upgrading its AB Online platform. It has been launching innovative offers for partners and producers – 3D and 360 degrees photos to show all details of products. This service enables comprehensive presentation of products offered by AB. Currently, AB Online platform is among the most modern regional solutions in e-commerce; as a result of commissioning of the transactional service in mobile version, AB is the sole broadline distributor offering such access to its offer and possibilities to execute orders.

The situation of the Czech GK AB – ATC Holding company has been stable. ATC increased its sales by over 17% vs. the equivalent period last year. Sales of smartphones and consumer electronics were the driving factor of growth. There was a dynamic growth of such factors as Apple, Samsung and Huawei. ATC continues to strengthen its position in the Czech Republic in the retail, SMB and has successively been increasing its market shares in the enterprise and Telco segments.

Rekman is a leading toy distributor in Poland, it has been operating on the market for over 20 years. It collaborates with several hundred trading partners, offering the broadest assortment of products from a majority of leading global and Polish manufacturers. The Company has been strengthening its position in the toy market by optimising its sales structures (growth of sales by 21%, development in the retail channel) and logistics and by expanding its product offer. Now the development of the Wyspa Szkrabów franchise network is a key project for the Company – as a target, the network is to become the largest franchise toy network in Poland focusing 200 partners under its brand. The “Family 500+” governmental programme will be an additional development impulse with Rekman acting as a major beneficiary.

- **ASSESSMENT OF THE MANAGEMENT OF FINANCIAL RESOURCES WITH JUSTIFICATION**

Distribution of IT and consumer electronics is a very competitive sector. The sale of computers, IT equipment as well as consumer electronics in global markets dominated by a number of key players including HP, Lenovo, Apple, Samsung, Intel, Microsoft, LG, Sony, Canon, Asus, Acer and others, requires great efficiency and skills in the management of market risk, operational risk, FX risk and credit risk.

The IT product distribution model is based on strong involvement of the distributor that offers material values for the manufacturer. In addition to provision of access to a full spectrum of sales market channels and support for pre- and after-sales services, crediting is one of the most crucial roles of the distributor under this model. The distributor conducts sales largely on the basis of trade credits. Payment terms depend on the customer’s creditworthiness, the nature of their activities, sales volumes, and other individually defined parameters. The key role of the distributor is also to maintain the broadest possible product offer.

In this model, working capital management is one of the key competences of a large distributor such as AB. The so-called broadline distributor maintains a positive working capital, fulfilling the credit function mentioned above; such characteristics of the business combined with the huge scale of operations determine the amount of receivables, inventories and liabilities, including interest liabilities, in the Company’s balance sheet. In addition, the dynamic sales growth observed in the recent years, as well as the diversification and expansion of the product offer (new distribution agreements) also contribute to an increase in interest debt.
Basic financial results, maintained at optimum levels, reflect the very good financial condition of the Group and effective management of its finance.

The Management Board pays special attention to FX risk hedging. The nature of its business exposes the Group Companies to material risk relating to currency rate fluctuations, but the hedge accounting implemented by the Group virtually eliminates FX risk. The applied hedging instruments do not generate additional risk related to a high volatility of market conditions, such as options or option strategies.

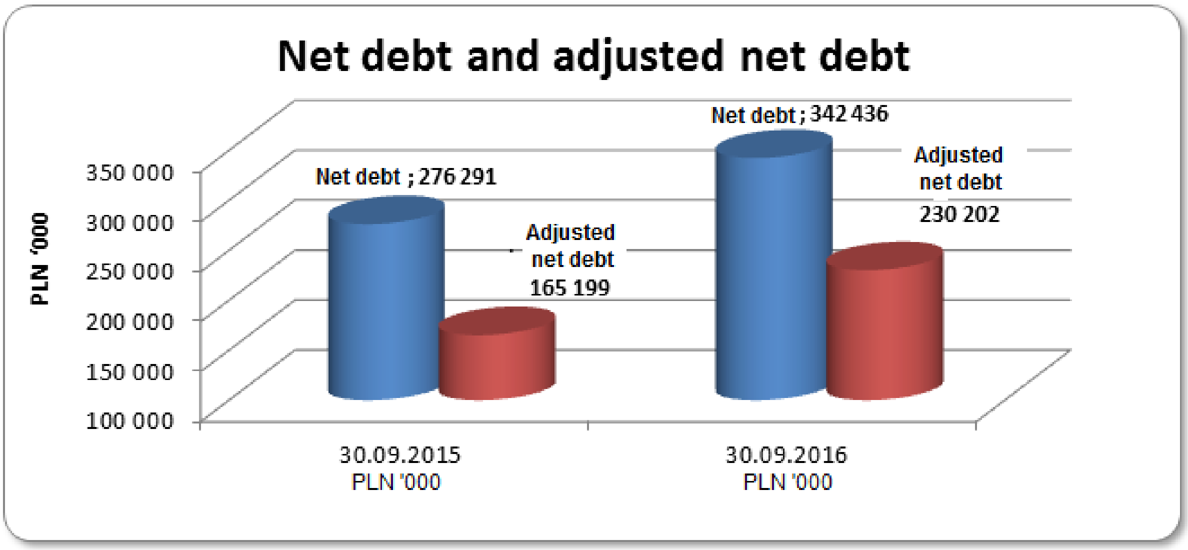
The Group has been managing credit risk in a structured and responsible manner. It applies a restrictive receivables policy, verifies merchant limits granted, and insures receivables. Thanks to its credit policy, the Group does not have any problems with collecting overdue receivables. At the same time, a conservative approach to valuation of such assets does not create risk of incorrect classification.

The total debt ratio of the Company as at 30 September 2016 was 68.8% (a result comparable to the financial year 2015/2016 – 67.4%). The value of the ratio is evidence of the Group's rational management of funding sources.

The AB Group has been consistently implementing its plan to ensure a long-term capital source for its operations and its investment and development strategy. After two bond issues, the Company has safe diversified financing within which the bonds account for PLN 170 M and the proceeds of the first issue were used to increase the working capital of AB S.A. and to finance the investment in a modern distribution centre in Magnice near Wrocław, a project carried out by the subsidiary company B2B IT Sp. z o.o.

To give a more precise view of the net debt, the Group adjusts the value, taking into account the capital expenditure in Magnice.

Item	**30.09.2015 [PLN '000]**	**30.09.2016 [PLN '000]**
Loans/borrowings	166,992	219,061
Bonds	170,677	169,723
Short-term financial assets	-61,378	-46,348
Net debt	**276,291**	**342,436**
Borrowings granted and the capital injection to an SPV subsidiary to fund the investment in Magnice	111,092	112,234
Adjusted net debt	**165,199**	**230,202**



10. Factors that in the Issuer's opinion will affect the results of the next quarter(s)

The Group operates in an environment of material currency fluctuations, and the Polish and Czech currencies are largely influenced by information coming from European and non-European economies. The information affects the exchange rates of the currencies in which the Group companies operate as well as prices of products. Both the first and the second half of 2016 showed a gradual improvement of the economic situation in Poland. In Q1 2016 GDP grew by 3.0% annually, in Q2 2016 the growth was 3.1 % while the growth rate in Q3 2016 is estimated to be slightly lower than 3.1 %. The projections of GDP growth made by NBP's Economic Institute provide that in 2016 the economic growth will be 3% and in 2017 it will accelerate to 3.6%. The growth of Poland's economy will be largely affected by private consumption supported by a 5% growth of real wages, record low unemployment and the "Family 500 +" programme while net export and investments will be the risk factor for the projection.

In Q1 2016, the Czech Republic's GDP grew by 3.0% y/y, in Q2 2016 GDP grew by 2.5% while the growth rate for Q3 2016 is estimated at 2.2%. In 2016 economic growth is expected of about 2.5% with the largest impact generated by domestic demand for goods and services and investment demand. Projections for 2017 expect GDP growth up to 2.7%. The average inflation rate at the end of 2016 is to be similar as in 2015 and is to be about 0.5% – 0,6%.

In the Slovak economy there has been a continuous upturn. Since 2004 that country's GDP has been regularly and stably growing. GDP grew in H2 2016 by 3.4% and 3.7% quarterly vs. the equivalent periods in 2015 while the growth in Q3 2016 is estimated by analysts at about 3.6%. The forecast for 2016 provides for economic growth at the similar level of up to 3.6% while in 2017 – up to 3.5%. For 5 years until 2014 unemployment was over 13%. In 2015 it dropped to 11.5% and in 2016 it is expected to drop further to 9.8% and in 2017 – to 8.5%.

Analysts estimate that economic situation of Poland, the Czech Republic, and Slovakia will continue to improve, although the growth of changes may be lower in the subsequent quarters. Nonetheless, in line with economists' forecasts this positive trend will continue during the subsequent quarters, which should have a positive impact on the operations of the Group. The core risk factor is still uncertainty on international markets, the conflict in Ukraine, migration crisis as well as changes resulting from the UK's decision to leave to the European Union. The economies of the Czech Republic and of Slovakia are highly dependent on exports whose higher volatility may determine the scale of economic activities in the coming quarters.

The current situation in the IT market and the toy market may also be an important factor for the Group. According to projections, the IT market in Central and Eastern Europe will grow on the average by 4.5 percent annually over 2015-2018. The IT market in Poland has been growing each and every year and it is one of the most important and strongest sectors of the national economy with good foundations and growth prospects. According to surveys conducted by the PMR market intelligence company, IT expenditures in Poland have been regularly growing. Mobile devices (mobile phones, tablets) remain the largest market segment, followed by household electronics (e.g. video game consoles). Poland is expected to become the second largest IT market in Central and Eastern Europe (after Russia) in the coming years. The IT market in Poland is expected to grow by 5.5% up to PLN 35.8 billion in 2017, with cloud services being the main growth driver. The toy market in Poland has been regularly growing – in 2015-2016 the growth was about 10% annually with a simultaneous growth of the average prices of the purchased products. In Europe, the toy market has been growing at half of the corresponding pace in Poland.

No inflation, growing wages, decreasing unemployment, improving labour situation and the commencement of the "Family 500+" programme should translate into growing consumption. In Q3 2016 the real income of households grew materially. Household expenditures are expected to continue growing in the next quarters. By the end of 2016 a further drop in unemployment is expected. In September 2016 there was the highest drop in unemployment in 25 years. The unemployment rate was 8.3%. The central inflation projection of the National Bank of Poland shows that the unemployment rate will be reduced to 6% by the end of the year and 5.4% by the end of 2017. The situation in the IT distribution market may be another major factor, where the existing competition has cut down the margins to historic lows. Commercial terms of transactions and organisational and logistics support are becoming increasingly important.

The positive GDP growth trend, growing consumption, low interest rates, and dropping unemployment rates allow assuming that the overall macroeconomic situation will improve in the Group's core markets. According to the forecasts, these trends will prevail in the next few quarters and should have a positive impact on the entire Group's performance.

The above macroeconomic circumstances materially impact development decisions taken by the Group's companies. The macroeconomic hurdles keep motivating the Group to continue its activity relying on its strong market position. Being a distribution leader in the IT sector, the AB Group has been endeavouring to maintain and consolidate its market position with a view to financial security. The Group keeps diversifying its market risk by offering a large product portfolio, which makes the Group attractive as a supplier. The core advantages in the IT market are the price and commercial terms of transactions, which, with the standardised products, means competition in terms of margin and costs.

By being involved in operations in three countries – Poland, Czech Republic and Slovakia – the Group distributes its potential business risks among the three markets and thus becomes more immune to the risk of unfavourable changes in one of the markets. Additionally, operations within the Group generate major synergies and unifications at various organisational and market levels.
As a result of consistent implementation of the approved strategy, the financial condition of the Company has been improving each year.

EXTERNAL FACTORS

- Unstable macroeconomic situation on the European markets stemming from the continuing debt crisis, perspective of the United Kingdom leaving the European Union and the political crisis in Ukraine
- Tightening of Polish – Chinese relations.
- Positive trend in the labour market in Poland: a slight growth of employment and decrease of unemployment
- Continued high volatility in FX markets, primarily with respect to the following exchange rates: EUR/PLN, USD/PLN as well as EUR/CZK and USD/CZK
- The unstable economic situation of Poland's neighbours in the east and in the west

- A high GDP growth rate in Poland (10 consecutive quarters in excess of 3%) and in the Czech Republic (4 consecutive quarters in excess of 4%, two subsequent quarters of 3% and 2.5% respectively)
- A strong signal stimulating individual consumption related to the "Family 500+" governmental programme
- Improvement of the key macroeconomic indicators – retail sales, GDP, PMI, which augurs well for the coming quarters
- The record-low interest rates should stimulate the consumer credit market within the next year, which may translate into the Group's sales growth
- Quick technological development
- Strong competition, resulting in pressure on prices and generated margins
- Consolidation of the market.

INTERNAL FACTORS

- Consistent implementation of the approved development strategy
- Maintenance and further expansion of the largest possible product portfolio – as part of the adopted market strategy, aimed at increasing sales and improving partners' loyalty
- Continuous work on optimising inventory management, working capital and logistics resulting in a low SGA to income ratio
- Parallel development in multiple distribution channels: resellers, e-commerce, large retail networks, public administration, corporate customers, integrators, the franchise network, and export sales
- Hedge accounting applied to eliminate the FX risk, and an effective hedging policy against the FX risk.
- Offering additional services to partners (e.g. training, certifications, outsourcing of logistic processes, sales platforms, joint marketing initiatives), which allow the Group obtaining their loyalty and generating higher margins
- Maintenance of debt ensuring, on one hand, financial safety, and providing for stable growth with a dynamically growing scale of operations on the other
- Ensuring stable funding sources over long-term
- Strict receivables policy guaranteeing that the Group's liquidity will remain at a high level
- Taking advantage of the Company's leading position on the three markets, in Poland, the Czech Republic, and Slovakia – economies of scale, strong negotiating position
- Recruiting new counterparties (new distribution agreements) and commercial partners
- Diversification of product groups with new categories from outside the new technologies segment (such as consumer electronics/household appliances, office articles and consumables).

11. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

Date	First and last name	Position / function	Signature
14.11.2016	*Andrzej Przybyło*	PRESIDENT OF THE MANAGEMENT BOARD	
14.11.2016	*Krzysztof Kucharski*	MEMBER OF THE MANAGEMENT BOARD	
14.11.2016	*Zbigniew Mądry*	MEMBER OF THE MANAGEMENT BOARD	
14.11.2016	*Grzegorz Ochędzan*	MEMBER OF THE MANAGEMENT BOARD	
14.11.2016	*Danuta Uzarska*	CHIEF ACCOUNTANT	