



GROUP

LSI Software

Consolidated annual report
for the year 2018

Letter of the President of the Management Board

Dear Shareholders,

On behalf of the Management Board of LSI Software S.A., I have the honor to present to You a report on business operations for a subsequent year in which the Group achieved its development goals. The companies being part of the Group continued its growth strategy based on development of own products as well as on domestic and foreign sales of these products. It was also a very successful period in terms of generated financial results in which the Group generated net profit at a record level of nearly PLN 6.1 million.

Observing the situation on the labour market in 2018, we focused on the optimization and automation of business processes, starting with the work of the lowest-level staff and ending with the top management. This strategy is tightly linked to the dynamic development of the self-service solutions portfolio, which includes both software and hardware. In these areas, we also record significant sales growth.

As a dominant entity in the sectors operated on the Polish market, working with many demanding Customers, we also decided to develop our Customer Service Department. I am convinced that this will improve the satisfaction of our business partners with the cooperation we have established and will allow us to gain new Clients even more effectively.

With respect to the assessment of the Group's financial position, it is essential to mention the merger of LSI Software SA with its subsidiary Softech Sp. z o.o. effected on 13 April 2018 with the objective to optimize and simplify the ownership structure, including reduction of operating expenses of separate structures within the companies as well as to generate additional revenues in the future, resulting from the possible synergy effects. In 2018, we also continued our dynamic expansion into foreign markets (Europe, USA, South America, Middle East). We are in the process of conducting implementations outside Poland and we still observe great interest in our products, among which the POSitive® Cinema as a cinema network management system is leading in foreign markets.

The Company has been granted several significant awards and distinctions, among them:

- the title of "National Winner for Poland" in the category – "The Digital Technology Award" in "European Business Awards 2018" competition
- the title "One to Watch" in the competition European Business Awards 2018,
- award for the Electronic Registration Card as the best product for the hotels "THE BEST OF WORLDHOTEL 2018" at the EuroGastro / World Hotel trade fair.

LSI Software Group has been undergoing a very intensive development for many years. The synergy achieved through cooperation of entities within the Group and acquisitions executed has contributed to the provision of solutions even better suited to the expectations of our current and future customers. We continue to invest in the development of our product portfolio, building the foundations for a stable growth of results. The situation allows us to expect further successes in strengthening our position as a leading provider of IT solutions in Poland and further expansion into foreign markets.

On behalf of all Members of the Management Board, I would like to thank everyone who in the past year contributed to the development and building as undeniably strong and innovative company as LSI Software S.A.

Bartłomiej Grduszak

President of the Management Board of LSI Software S.A.

Łódź, 29-04-2019

A. Statement of the Management Board

The Management Board of LSI Software S.A., hereby declares that to its best knowledge, the annual consolidated financial statement and comparative data have been prepared in accordance with applicable accounting principles and that they accurately, fairly and transparently present the financial position and performance of LSI Software Group.

The Management Board of the Company, also declares that the report on the Group's business activities gives a reliable view of the issuer's development and achievements, including the description of key risks and threats.

The annual consolidated financial statement hereof has been prepared on the basis of accounting principles in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS"). As at the date of approving the financial statement hereof for publication, taking into account the ongoing process of introducing IFRS in the EU, IFRS applicable to this financial statement do not differ from the EU IFRS. This financial statement covers the period from 1 January to 31 December 2018 and the comparable period from 1 January to 31 December 2017.

The Management Board of the Company declares that the Audit Firm which performed the audit of the annual consolidated financial statement was selected in accordance with the law and that this audit firm and the statutory auditors who conducted the audit fulfilled the conditions to express an impartial and independent opinion on the audited annual consolidated financial statement in accordance with the applicable regulations and professional standards, as well as that the applicable regulations related to the rotation of the audit firm and the key statutory auditor as well as the mandatory grace periods were complied with. LSI Software S.A. has a policy for the selection of an audit firm and a policy in terms of the provision to the issuer by the audit firm, an audit firm's affiliate or a member of its network of additional non-audit services, including services conditionally exempted from the audit firm's prohibition.

In accordance with the corporate governance rules adopted by the Company's Management Board, the audit firm was appointed by the Supervisory Board by way of Resolution No. 12/RN/2018 of 28 May 2018 on the selection of the audit firm. The Supervisory Board made this selection with a view to ensuring full independence and objectivity of the selection itself and the performance of the tasks by the statutory auditor acting on behalf of the audit firm.

The Audit Committee of LSI Software S.A. Supervisory Board was appointed by the Supervisory Board under Resolution No. 13/RN/2017 of 21 September 2017 based on the Act on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws No. 2017, item 1089), pursuant to §2 of the Rules Audit Committee of LSI Software S.A. Supervisory Board.

In 2018, the Committee held four meetings at the Company's registered office, which were attended also by the President of the Management Board of LSI Software S.A. - Bartłomiej Grduszek. As a result of the meetings, the following resolutions were adopted:

- granting consent to perform reviews in subsidiaries Softech Sp. z o.o. and GiP Sp. z o.o,
- adoption of the report on the activities of the Audit Committee with recommendations to the Supervisory Board,
- recommendation to grant consent to increase bank guarantee for Posiflex Technology Inc.
- approval of the Company's annual financial plan for 2019.

In 2018 the composition of the Audit Committee changed: on 9 March 2018, by means of the Resolution 5/RN/2018 of the Supervisory Board of LSI Software S.A., a new Member of the Audit Committee - Piotr Kraska was appointed as Chairman of the Audit Committee, and new members were appointed to the Audit Committee: Grzegorz Siewiera and Maciej Węgierski (respectively on 28 May 2018 by Resolution No. 15/RN/2018 of the Supervisory Board and on 21 September 2018 by Resolution No. 21/RN/2018 of the Supervisory Board).

The Management Board of LSI Software S.A. declares that the conditions set forth in the applicable regulations regarding the appointment, composition and operation of the Audit Committee have been met, and that its members meet the requirements of the legal provisions regarding independence, knowledge and skills in the industry in which the Company operates, as well as in the field of accounting or auditing the financial statements. The Audit Committee performed the tasks provided for in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision and other regulations applicable to public companies.

Bartłomiej Grduszak

*President of the
Management Board*

Michał Czwojdzinski

*Vice-President of the
Management Board*

Grzegorz Strąk

*Member of the
Management Board*

B. Statement of the Supervisory Board on the assessment of the statements

Pursuant to Par. 70 section 1 item 14 and Par. 71 section 1 item 12 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state and in accordance with Article 382 Par. 3 of the Commercial Companies Code, the Supervisory Board of LSI Software S.A. stated that it had assessed the following documents submitted by the Management Board:

- report on business activities of the Company and LSI Software S.A. Group for the year 2018,
- separate financial statement of LSI Software for the year 2018,
- consolidated financial statement of LSI Software Group for the year 2018.

As a result of the performed assessment, the Supervisory Board concluded that the report on the business activities of the Company and the Group in 2018, in all material aspects, meets the requirements set forth in Article 49 and Article 55(2a) of the Accounting Act and in the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state, and that information contained therein is consistent with the information contained in the separate financial statement of the Company and the consolidated financial statement of LSI Software Group for the year 2018 audited by a certified auditor.

Furthermore, the Supervisory Board considers that the separate financial statement for the year 2018, the consolidated financial statement for the year 2018 and the report on the activities of the Company and the Group for the year 2018 submitted by the Management Board of the Company present reliably and clearly all necessary and significant information for the assessment of the property and financial situation of the Company and the Group as at 31 December 2018, as well as that these statements and reports are consistent with the books of account, documents and the current situation.

The Supervisory Board positively assessed the separate financial statement for the year 2018, the consolidated financial statement for the year 2018 and the report on the activities of the Company and the Group for the year 2018 on the basis of:

- the content of aforementioned statements submitted by the Management Board;
- the reports of the independent auditor on the audit of the Company's separate financial statement and the consolidated financial statement of LSI Software Group as at 31.12.2018 and the additional report to the Audit Committee prepared pursuant to Article 11 of the Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC and pursuant to the provisions of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision;
- meetings with representatives of the audit firm, including with the key statutory auditor;
- information obtained from the Audit Committee on the course, results and significance of the audit for the reliability of financial reporting in the Company and the role of the Committee in the process of auditing the financial statements;
- the results of other verification activities carried out in selected financial and operational areas.

C. Selected financial data

data in PLN thousand

01.01.2018 - 31.12.2018

01.01.2017 - 31.12.2017

	PLN	EUR	PLN	EUR
PROFIT AND LOSS ACCOUNT				
Net revenue from the sale of products, goods and materials	47 667	11 171	47 568	11 206
Cost of sales	36 332	8 515	34 251	8 069
Profit (loss) on operating activities	6 642	1 557	5 727	1 349
Gross profit (loss)	6 728	1 577	5 853	1 379
Net profit (loss)	6 067	1 422	5 039	1 187
Number of participating interests / shares (in pcs.)	3 260 762	3 260 762	3 260 762	3 260 762
Net profit (loss) per ordinary share (PLN / EUR)	1,86	0,44	1,55	0,36

BALANCE SHEET				
Fixed assets	23 899	5 558	27 149	6 509
Current assets	20 543	4 777	16 943	4 062
Equity	32 856	7 641	32 101	7 696
Long-term liabilities	2 035	473	2 034	488
Short-term liabilities	9 551	2 221	9 957	2 387
Book value per share (PLN / EUR)	10,08	2,34	9,84	2,36

CASH FLOW STATEMENT				
Net cash flow from operating activities	9 204	2 157	7 542	1 777
Net cash flow from investing activities	-5 473	-1 283	-8 319	-1 960
Net cash flow from financing activities	-600	-141	-872	-205

Financial year	Average exchange rate in the reporting period *	Minimum exchange rate in the reporting period	Maximum exchange rate in the reporting period	Exchange rate as at the last day of the reporting period
01.01-31.12.2018	4,2669	4,1423	4,3978	4,3000
01.01-31.12.2017	4,2447	4,1709	4,4157	4,1709

*) average of exchange rates prevailing on the last day of each month in a given period

The above items of assets and liabilities in the statement of financial position were converted according to the exchange rates announced by the National Bank of Poland for EURO and prevailing on the last day of a given period.

Whereas, the items in the profit and loss account and cash flow statement were converted according to the rates calculated as an arithmetic mean of the average exchange rates announced by the National Bank of Poland for EURO and prevailing on the last day of each month in a given reporting period.

For the purpose of balance sheet valuation, the following exchange rates for the American dollar were also applied (as well as analogous exchange rates for other currencies quoted by the National Bank of Poland):

- change rate applicable on 31 December 2018 1 USD = 3,7597 PLN
- change rate applicable on 31 December 2017 1 USD = 3,4813 PLN

D. Annual consolidated financial statement for the period from 1 January 2018 to 31 December 2018

General information

I. Dominant Company's data:

Business name:	LSI Software S.A.
Legal form:	Joint Stock Company
Registered office:	93-120 Łódź, 176/178 Przybyszewskiego St.
Country of registration:	Poland
The Company's core business:	Computer programming activities 62.01.Z
Registration court:	District Court for the City of Łódź, 20th Division of the National Court Register
REGON:	472048449

LSI Software Group is a leading Polish producer of software for retail and hospitality sectors as well as for cinema operators. The Issuer together with its subsidiaries also provides ERP (Enterprise Resource Planning) systems and software for managing recreational and sports facilities. The Group's offer includes consulting services, implementation services, technical support and supply of specialized hardware solutions. The Group's key strength is over 25 years of experience in the market. The mission of LSI Software SA is to provide modern IT solutions supporting the operations of companies and enabling their effective and comprehensive management. Companies being part of the Group are long-time partners of global companies such as Microsoft or Posiflex. This results in access to the most advanced technologies and specialized equipment used in the world.

Companies being part of LSI Software Group operate on the Polish and foreign markets, striving to expand into European and global markets.

II. Duration of an entity

LSI Software as a Dominant Company as well as other companies being part of the Group have a perpetual existence.

III. Presented periods

The consolidated financial statement contains data for the period from 1 January 2018 to 31 December 2018. Comparative data is presented as at 31 December 2017 for the consolidated balance sheet and for the period from 1 January 2017 to 31 December 2017 for the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and the statement of changes in consolidated equity.

IV. The composition of Dominant Company's managing and supervisory bodies as at 31 December 2018

Management Board:

Bartłomiej Grduszak	-	President of the Management Board
Michał Czwojdzinski	-	Vice-President of the Management Board
Grzegorz Strąk	-	Member of the Management Board

Changes to the composition of the Company's Management Board:

On 31 January 2018 the General Meeting adopted a resolution to dismiss Henryk Nester from his position as Member of the Management Board.

Supervisory Board:

Grzegorz Siewiera	- Chairman of the Supervisory Board
Krzysztof Wolski	- Vice-Chairman of the Supervisory Board
Andrzej Kurkowski	- Member of the Supervisory Board
Piotr Kraska	- Member of the Supervisory Board (appointed on 31 January 2018)
Maciej Węgierski	- Member of the Supervisory Board (appointed on 29 June 2018)

Changes to the composition of the Company's Supervisory Board:

On 15 January 2018, Mr. Piotr Kardach, Member of the Company's Supervisory Board, resigned as a Member of the Supervisory Board. On 31 January 2018 the Extraordinary General Meeting decided to appoint Mr. Piotr Kraska to the Supervisory Board of the Company, entrusting him with the function of a Member of the Supervisory Board. Moreover, on 29 June 2018 the Ordinary General Meeting of Shareholders dismissed Mr. Grzegorz Kwiatkowski from the function of Member of the Supervisory Board and appointed Mr. Maciej Węgierski in his place.

V. Audit firm

BDO Spółka z ograniczoną odpowiedzialnością sp. k.
12 Postępu St., 02-676 Warsaw
NIP: 108-000-42-12
REGON: 141222257

VI. Legal Advisers:

Adwokat Małgorzata Woźniacka – Węgierska (Lawyer) – Kancelaria Adwokacka Woźniacki Węgierska
Pawlonka (Law Firm)
149 Sienkiewicza St.
90-302 Łódź

VII. Banks:

mBank S.A.
Corporate Division Łódź
74 Kilińskiego St.
90-119 Łódź

VIII. Listing on regulated market:

1. General information:

Stock Exchange:	Warsaw Stock Exchange Książęca 4 St. 00-498 Warsaw
Ticker on WSE:	LSISOFT
Sector on WSE:	IT

2. Depository and settlement system:

National Depository for Securities (KDPW)
Książęca 4 St.
00-498 Warsaw

3. Investor Relations:

LSI Software S.A.
Przybyszewskiego 176/178 St.
93-120 Łódź
Head of the Management Board Office – Aneta
Czerwińska, tel.: 42 680 80 00 int. 134
inwestorzy@lsisoftware.pl

IX. Significant Shareholders:

As at 29 June 2018, that is as at the day of the last General Meeting, the following shareholders held more than 5% of votes at the General Meeting:

Shareholders	Number of shares	Value of shares	Share in capital %	Number of votes	Share in total number of votes at GM (%)
SG Invest Sp. z o.o./ Grzegorz Siewiera	1 000 000	1 000 000	30,67	2 600 000	53,49
Other Shareholders	2 260 762	2 260 762	69,33	2 260 762	46,51
Total	3 260 762	3 260 762	100,00	4 860 762	100,00

X. Subsidiary companies:

- **Softech Sp. z o.o.**
Percentage of capital and votes held - 100%
(entity existing until 13 April 2018)
- **LSI Software s.r.o.**
Percentage of capital and votes held - 100%
(entity incorporated on 13 September 2016)
- **GiP Sp. z o.o.**
Percentage of capital and votes held - 100%
(entity acquired on 1 February 2017)
- **Positive Software USA LLC**
Percentage of capital and votes held - 100%
(entity incorporated on 28 June 2017)

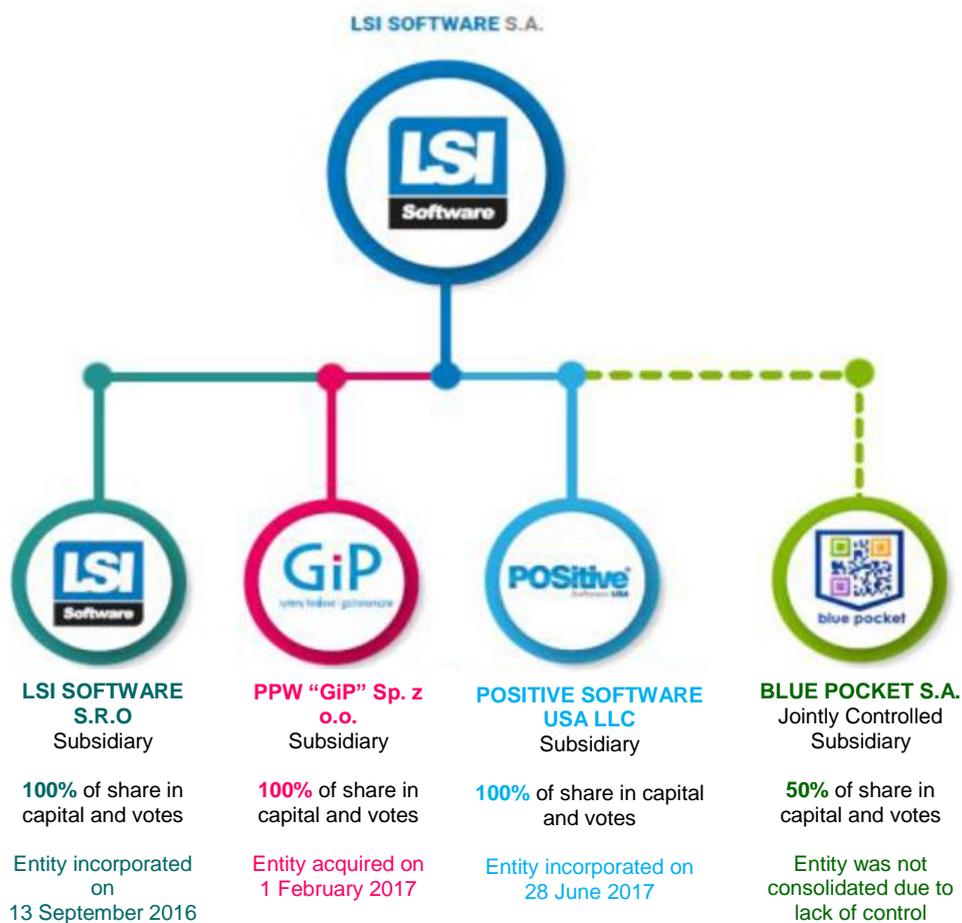
Pursuant to the decision of the District Court for Łódź - Śródmieście in Łódź, 20th Commercial Division of the National Court Register issued on 13 April 2018, the merger of LSI Software S.A. (the Acquiring Company) with Softech sp. o.o. (the Company Being Acquired) was registered. The above date is the day of merger within the meaning of Art. 493.2 of the Commercial Companies Code (hereinafter "CCC"). In view of the above, pursuant to Art. 494.1 of the CCC on the day of merger LSI Software S.A. became a legal successor and entered into all the rights and obligations of Softech Sp. z o.o.

In accounting terms, the merger was settled as a merger under common control in accordance with Article 44c of the Accounting Act (pooling of interests method). The share capital and part of the supplementary capital of Softech Sp. z o.o. with its interests in subsidiary companies in LSI Software S.A. were excluded. Mutual settlements, turnover and results were also excluded. Comparative data for the previous financial years has been presented as if the merger had taken place at the beginning of the previous financial year. Therefore, this data was restated. In turn, in the case of the consolidated financial statements, goodwill arising from the acquisition of Softech Sp. z o.o. in the amount of PLN 4,427 thousand was excluded with the supplementary capital.

XI. Jointly controlled subsidiary undertakings:

- **BluePocket S.A.**
Percentage of capital and votes held - 50%
(the entity was not subject to consolidation due to the loss of control)

XII. Graphical presentation of the Group



XIII. Approval of the financial statement for publication

This financial statement was approved for publication by the Company's Management Board on 29 April 2019.

Annual consolidated financial statement of LSI Software Group

Consolidated profit and loss account

	NOTE	01.01 -31.12.2018	01.01 -31.12.2017
Continued operations			
Sales revenues	1, 2	47 667	47 568
Revenues from sales of products		8 212	5 448
Revenues from sales of services		16 012	17 128
Revenues from sales of goods and materials		23 443	24 992
Cost of products, goods and materials sold	2, 3	36 332	34 251
Manufacturing costs of products and services sold		21 281	17 682
Value of goods and materials sold		15 051	16 569
Gross profit (loss) on sales		11 335	13 317
Other operating income	4	1 999	1 398
Sales costs	3	2 284	4 659
General and administrative costs	3	3 991	3 831
Expenditure on research and development		8 210	6 451
Other operating costs	4	417	498
Profit (loss) on operating activities		6 642	5 727
Financial income	5	202	251
Financial costs	5	116	125
Share in net profit (loss) of entities accounted for using the equity method		0	0
Profit (loss) before tax		6 728	5 853
Income tax	6	661	814
Net profit (loss) from continuing operations		6 067	5 039
Profit (loss) on discontinued operations	7	0	0
Net profit (loss)		6 067	5 039
Net profit (loss) per share (in PLN)	8	1,86	1,55
Basic for the financial period		1,86	1,55
Diluted for the financial period		1,86	1,55
Net profit (loss) per share from continuing operations (in PLN)			
Basic for the financial period		1,86	1,55
Diluted for the financial period		1,86	1,55
Net profit (loss) per share from discontinued operations (PLN)		0,00	0,00

Łódź, 29 April 2019

Signatures of Members of the Management Board:

Bartłomiej Grduszak

President of the Management Board

Michał Czwojdzinski

Vice-President of the Management Board

Grzegorz Strąk

Member of the Management Board

Signature of a person preparing the financial statement:

Bartłomiej Grduszak

President of the Management Board

Dariusz Górski

Chief Accountant

Consolidated statement of comprehensive income

	NOTE	01.01 -31.12.2018	01.01 -31.12.2017
Net profit (loss)		6 067	5 039
Items to be reclassified to profit and loss account in subsequent periods		0	0
Foreign exchange differences on the translation of units operating abroad			
Foreign exchange differences on translation of entities accounted for using the equity method			
Net loss from securing the share in net assets of entities operating abroad			
Net change in fair value of available-for-sale financial assets			
Net change in fair value of available-for-sale financial assets reclassified to profit or loss of the current period			
The effective portion of changes in fair value of cash flow hedges			
Net change in fair value of cash flow hedges reclassified to profit or loss of the current period			
Income tax related to components of other comprehensive income			
Items that will not be reclassified to the profit and loss account in subsequent periods		0	0
Revaluation of tangible fixed assets			
Actuarial gains (losses) on benefit plans			
Share in total income of affiliated undertakings *			
Income tax related to components of other comprehensive income			
Total comprehensive income	10, 11	6 067	5 039
Total comprehensive income attributable to non-controlling shareholders			
Total comprehensive income attributable to Dominant Entity		6 067	5 039

Łódź, 29 April 2019

Signatures of Members of the Management Board:

Bartłomiej Grduszak

President of the Management Board

Michał Czwojdzinski

Vice-President of the Management Board

Grzegorz Strąk

Member of the Management Board

Signature of a person preparing the financial statement:

Bartłomiej Grduszak

President of the Management Board

Dariusz Górski

Chief Accountant

Consolidated statement of financial position

ASSETS	NOTE	31.12.2018	31.12.2017
Fixed assets		23 899	27 149
Fixed tangible assets	13	7 766	5 806
Intangible assets	14	11 933	11 039
Goodwill	15	2 522	6 949
Investment property	16	864	2 479
Investments in associates accounted for using the equity method	17	0	0
Shares and participating interests in subordinated undertakings not subject to consolidation	18	0	0
Financial assets available for sale	20	0	0
Other financial assets	22, 41	0	0
Deferred tax assets	6	814	876
Other fixed assets	19	0	0
Current assets		20 543	16 943
Inventory	23	2 936	2 858
Trade receivables	25	9 118	8 284
Current income tax receivables		79	403
Other receivables	26	1 125	1 208
Financial assets available for sale	20	0	0
Financial assets measured at fair value through profit or loss	21	0	0
Other financial assets	22, 41	235	253
Prepayments	27	325	342
Cash and cash equivalents	28	6 725	3 595
Assets classified as held for sale		0	0
TOTAL ASSETS		44 442	44 092

Łódź, 29 April 2019

Signatures of Members of the Management Board:

Bartłomiej Grduszak

*President of the
Management Board*

Michał Czwojdziański

*Vice-President of the
Management Board*

Grzegorz Strąk

*Member of the
Management Board*

Signature of a person preparing the financial statement:

Bartłomiej Grduszak

*President of the Management
Board*

Dariusz Górski

Chief Accountant

PASYWA	NOTE	31.12.2018	31.12.2017
Equity		32 856	32 101
Equity attributable to shareholders of a Dominant Entity		32 856	32 101
Share capital	29	3 261	3 261
Statutory capital reserve from share premium	30	8 150	12 924
Own shares (negative value)		-609	-150
Other provisions	31	2 060	2 060
Foreign exchange translation differences		0	0
Retained earnings	32	13 927	8 967
Financial result of the current period		6 067	5 039
Equity attributable to non-controlling shareholders	33	0	0
Long-term liabilities		2 035	2 034
Credits and loans	34	1 080	1 079
Other financial liabilities	35,41	503	522
Other long-term liabilities	36	0	0
Deferred income tax provision	6	451	431
Accruals	42	0	0
Provisions for retirement and similar benefits	43	1	2
Other provisions	44	0	0
Short-term liabilities		9 551	9 957
Credits and loans	34	468	1 175
Other financial liabilities	35,41	554	1 366
Trade liabilities	37	5 000	5 995
Current income tax liabilities		110	303
Other liabilities	38	2 698	142
Accruals	42	601	798
Provisions for retirement and similar benefits	43	1	0
Other provisions	44	119	178
Liabilities directly related to assets classified as held for sale		0	0
TOTAL LIABILITIES		44 442	44 092
Book value per share		10,08	9,84

Łódź, 29 April 2019

Signatures of Members of the Management Board:

Bartłomiej Grduszak

*President of the
Management Board*

Michał Czwojdzinski

*Vice-President of the
Management Board*

Grzegorz Strąk

*Member of the
Management Board*

Signature of a person preparing the financial statement:

Bartłomiej Grduszak

*President of the Management
Board*

Dariusz Górski

Chief Accountant

Statement of changes in equity

	Share capital	Statutory capital reserve from share premium	Other reserves	Own shares	Retained earnings	Financial result of the current period	Equity attributable to the shareholders of a Dominant Entity	Equity attributable to non-controlling shareholders	Total equity
12 months ended 31.12.2018									
Equity as at 1 January	3 261	12 924	2 060	-150	14 006	0	32 101	0	32 101
Changes in accounting policies	0	0	0	0	0	0	0	0	0
Corrections of errors in previous periods	0	0	0	0	-79	0	-79	0	-79
Equity after corrections	3 261	12 924	2 060	-150	13 927	0	32 022	0	32 022
Net profit distribution	0	0	0	0	0	0	0	0	0
Purchase of own shares	0	0	0	-459	0	0	-459	0	-459
Contributions (payments) in the form of own shares	0	0	0	0	0	0	0	0	0
Business combinations	0	-4 774	0	0	0	0	-4 774	0	-4 774
Dividend payment	0	0	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	0	6 067	6 067	0	6 067
Equity as at 31 December	3 261	8 150	2 060	-609	13 927	6 067	32 856	0	32 856
12 months ended 31.12.2017									
Equity as at 1 January	3 261	13 096	0	-11	7 112	4 512	27 970	0	27 970
Changes in accounting policies	0	-172	0	0	-597	0	-769	0	-769
Corrections of errors in previous periods	0	0	0	0	0	0	0	0	0
Equity after corrections	3 261	12 924	0	-11	11 027	0	27 201	0	27 201
Net profit distribution	0	0	0	0	0	0	0	0	0
Purchase of own shares	0	0	0	-150	0	0	-150	0	-150
Contributions (payments) in the form of own shares	0	0	0	11	0	0	11	0	11
Transfer between reserves	0	0	2 060	0	-2 060	0	0	0	0
Dividend payment	0	0	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	0	5 039	5 039	0	5 039
Equity as at 31 December	3 261	12 924	2 060	-150	8 967	5 039	32 101	0	32 101

Łódź, 29 April 2019

Signatures of Members of the Management Board:

Bartłomiej Grduszak

*President of the
Management Board*

Michał Czwojdziniński

*Vice-President of the
Management Board*

Grzegorz Strąk

*Member of the
Management Board*

Signature of a person preparing the financial statement:

Bartłomiej Grduszak

*President of the Management
Board*

Dariusz Górski

Chief Accountant

Consolidated cash flow statement

	01.01 -31.12.2018	01.01 -31.12.2017
OPERATING ACTIVITIES		
Profit (loss) before tax	6 728	5 853
Total adjustments	3 067	2 899
Share in net profit of subordinated entities accounted for with the use of equity method	0	0
Amortisation and depreciation	3 703	3 370
Foreign exchange gains/losses	2	97
Interests and share in profits (dividends)	97	96
Profit / loss on investing activities	-73	-38
Change in reserves	-40	-40
Change in inventory	-78	-51
Change in receivables	819	-319
Change in liabilities excluding credits and loans	379	-1 432
Change in other assets	-1 035	-62
Other adjustments arising in connection with operating activities	-707	1 278
Cash on operating activities	9 795	8 752
Interests paid	0	0
Income tax (paid) / reimbursed	-591	-1 210
Net cash flow from operating activities	9 204	7 542
INVESTING ACTIVITIES		
Inflows	165	78
Disposal of intangible assets and fixed tangible assets	140	77
Disposal of investments in immovable property	0	0
Disposal of financial assets	0	0
Other investment inflows	0	0
Repayment of long-term loans granted	25	1
Outflows	5 638	8 397
Acquisition of intangible assets and fixed tangible assets	4 133	4 879
Acquisition of investments in immovable property	0	0
Acquisition of financial assets	1 498	3 502
Other investment outflows	7	16
Net cash flow from investing activities	-5 473	-8 319
FINANCING ACTIVITIES		
Inflows	2 365	1 831
Net inflows from issues of shares and other equity instruments and from capital contributions	0	11
Credits and loans	961	1 750
Issue of debt securities	0	0
Other financial inflows	1 404	70
Outflows	2 965	2 703
Acquisition of own shares	457	150
Dividends and other payments to owners	0	0
Profit distributions other than payments to owners	0	0
Repayment of credits and loans	1 667	1 903
Redemption of debt securities	0	0
For other financial liabilities	0	0
Financial lease payments	737	554
Interests	104	96
Other financial outflows	0	0
Net cash flow from financing activities	-600	-872
Total net cash flow (A + B + C)	-3 131	-1 649
Balance sheet change in cash, including:	-3 129	-1 745
– Change in cash due to foreign exchange differences	-2	-75
Cash at the beginning of the period	3 671	5 320
Cash at the end of period (F + D)	6 802	3 671

Łódź, 29 April 2019

Signatures of Members of the Management Board:

Bartłomiej Grduszak

*President of the
Management Board*

Michał Czwojdzinski

*Vice-President of the
Management Board*

Grzegorz Strak

*Member of the
Management Board*

Signature of a person preparing the financial statement:

Bartłomiej Grduszak

*President of the Management
Board*

Dariusz Górski

Chief Accountant

ADDITIONAL INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENT

I. Compliance with the International Financial Reporting Standards

This consolidated financial statement has been prepared in accordance with the International Accounting Standards, the International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission, hereinafter referred to as "EU IFRS".

EU IFRS include standards and interpretations accepted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), approved for application in the EU.

In preparing the annual consolidated financial statement for the year 2018 the Dominant Entity applied the same accounting policies as those adopted for the preparation of the consolidated financial statement for the year 2017, with the exception of amendments to standards and new standards and interpretations approved by the European Union for reporting periods beginning on or after 1 January 2018. In 2018, the Dominant Entity adopted all new and approved standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee approved for application in the EU, applicable to its business operations and effective from 1 January 2018.

Below is a list of standards and amendments to standards approved by the EU applicable to reporting periods beginning on or after 1 January 2018:

- a)** Amendments to IAS 12 Income Tax – Recognition of deferred tax assets for unrealized losses – effective for reporting period beginning on or after 1 January 2018

The purpose of the proposed amendments is to clarify that the unrealized losses on debt instruments measured at fair value and, for tax purposes at the acquisition price, may give rise to deductible temporary differences.

The proposed amendments will also provide that the carrying amount of an individual asset does not limit the estimates of future taxable income. In addition, in case of comparing the deductible temporary differences to the future taxable income, the future taxable income shall not include tax deductions resulting from the reversal of the deductible temporary differences.

- b)** Amendments to IAS 7 Statement of Cash Flows: The initiative on disclosure - effective for reporting periods beginning on or after 1 January 2018

The change is intended to improve the quality of information on financial activity and liquidity of reporting entity disclosed to users of financial statements. It introduces the following requirements:

- i. reconciliation in the statement of financial position of opening and closing balances for all items, generating cash flows that qualify as financial activities, with the exception of equity
 - ii. disclosure of information on issues facilitating the analysis of liquidity of an entity, such as limitations applied when deciding on the use of cash and cash equivalents.
- c)** Improvements to IFRS (2014-2016) - changes within the procedure of annual amendments to IFRSs - effective for reporting periods beginning on or after 1 January 2018

Amendments to IFRS 12 Disclosure of Interests in Other Entities

Amendment clarified that the disclosures required under IFRS 12 (with the exception of B10-B16) also apply to interests held for sale and discontinued operations in accordance with IFRS 5. Amendment was introduced in connection with uncertainties arising on interaction of requirements on disclosures under IFRS 5 and IFRS 12.

The adoption of these amendments to standards did not result in changes in the accounting policies of the Group, or do not materially affect the presentation of the data in the consolidated financial statements.

The result of the application of new accounting standards and changes in accounting policy

The accounting principles (policy) applied in the preparation of this financial statement for the year ended 31 December 2018 are consistent with those applied in the preparation of the annual financial statement for the previous financial year, except for the changes described below. The same principles were applied for the current period and the comparable periods.

▪ **Amendments resulting from changes in IFRS**

The following new or amended standards and interpretations issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee have been in force since the beginning of the financial year.

▪ **Amendments to different standards resulting from the annual review of International Financial Reporting Standards (Annual Improvements 2014-2016)**

On 8 December 2016, as a result of the review of IFRS, minor amendments were introduced to the following standards:

- IFRS 1 Interim Financial Reporting, with respect to the removal of a number of exemptions provided for in this standard which are no longer applicable,
- IAS 28 Investments in Associates and Joint Ventures, in terms of the moment at which the investment entities (e.g. venture capital) may decide to choose how to measure interests in associates or joint ventures at fair value rather than using the equity method. They apply to annual periods beginning on 1 January 2018 (except for amendments to IFRS 12, which are effective for annual periods beginning on or after 1 January 2017).

▪ **Amendments to IFRS 2: Classification and measurement of share-based payment transactions**

The amendments to IFRS 2 were published on 20 June 2016 and apply to annual periods beginning on or after 1 January 2018. The purpose of the amendments to the standard was to clarify the manner of recognising certain types of share-based payment transactions.

▪ **Amendments to IFRS 4: Application of IFRS 9 "Financial Instruments" in IFRS 4 "Insurance Contracts" published on 12 September 2016**

They apply to annual periods beginning on or after 1 January 2018.

▪ **IFRIC 22 Transactions in foreign currencies and advance payments**

The new interpretation was published on 8 December 2016 and applies to annual periods beginning on 1 January 2018 or later. The purpose of the interpretation is to indicate how to specify the transaction date for the purpose of determining the appropriate exchange rate (for conversion) of a transaction concluded in a foreign currency in a situation where the entity pays or receives an advance payment in a foreign currency.

▪ **Amendment to IAS 40 Transfer of investment property**

The amendment to IAS 40 was published on 8 December 2016 and applies to annual periods beginning on or after 1 January 2018. Its purpose is to specify that a transfer of a property from or to investment property may be effected only and exclusively when the manner of using the property has been changed. In connection with the change of the manner of using a part of the property located in Łódź at 176/178 Przybyszewskiego Street, in the financial year 2018 the Company reclassified investment property of the value amounting to PLN 1,615 thousand into fixed assets.

▪ **IFRS 9 Financial Instruments**

The new standard was published on 24 July 2014 and applies to annual periods beginning on or after 1 January 2018. The purpose of the standard is to streamline the classification of financial assets and to introduce uniform principles governing the approach in terms of evaluation for impairment regarding all financial instruments.

The standard also introduces a new model of hedge accounting in order to unify the principles of recognising risk management information in financial statements.

The new standard introduces modified categories of financial assets. Instead of four categories of financial assets as applicable under IAS 39 (financial assets held to maturity, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss), three categories were introduced (financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss). The allocation of a financial asset to a category depends on the Group's business model in terms of managing financial assets and on the nature of the contractual cash flows for the financial asset. In accordance with IFRS 9:

- A financial asset is measured at amortized cost if both of the following conditions are met:
 - a. the asset is held within a business model which objective is to hold assets in order to obtain the contractual cash flows;
 - b. and its contractual terms give rise (on specified dates) to cash flows being solely the payment of principal and interests on outstanding amounts.
- A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:
 - a. the financial asset is held in accordance with a business model that involves both receiving the contractual cash flows and selling the components of financial assets; and
 - b. the contractual terms applying to the component of the financial asset give rise to cash flows on specified dates that only represent the repayment of a principal amount and interest on outstanding principal amount.

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, entities may make an irrevocable choice at the time of initial recognition with respect to specific investments in equity instruments that would otherwise be measured at fair value through profit or loss. In order to recognise subsequent changes in fair value through other comprehensive income, IFRS 9 does not change the category of financial liabilities.

The new classification of financial assets as at 1 January 2018 along with the new valuation is presented below:

Item	Classification according to:		Valuation as at 1 January 2018, according to		Change
	MSR 39	MSSF 9	MSR 39	MSSF 9	
Long-term receivables	Loans granted and receivables	Financial assets valued at amortized cost	253	253	-
Trade receivables	Loans granted and receivables	Financial assets valued at amortized cost	8 153	8 153	-
Cash and cash equivalents	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	2 531	2 531	-

The new standard replaces the guidance set out in IAS 39 Financial Instruments: Recognition and Measurement concerning the classification and measurement of financial assets. Standard eliminates the categories set forth in IAS 39, that is: held to maturity, available for sale and loans and receivables.

Gains and losses on valuation of financial assets measured at fair value are recognized in the profit and loss account for the current period, except for a situation where the investment in an equity instrument is not intended for trading.

IFRS 9 gives discretion to make a decision to measure such financial instruments upon initial recognition at fair value through other comprehensive income. Such a decision is irreversible. Such a choice can be made for each financial instrument separately. The amounts recognized in other comprehensive income cannot be reclassified to profit or loss in future periods.

IFRS 9 introduced a new model for determining impairment losses, i.e. the model of expected credit losses. It is also important in view of IFRS 9 to disclose the effects of changes in own credit risk on financial liabilities measured at fair value through profit or loss, in other comprehensive income.

- **IFRS 15 Revenues from contracts with customers**

The new uniform standard was published on 28 May 2014 and applies to annual periods beginning on or after 1 January 2018 and its earlier application is permitted. The standard establishes a uniform framework for revenue recognition and contains principles that will replace most of the detailed guidelines for revenue recognition currently existing under IFRS, in particular under IAS 18 - Revenue, IAS 11 - Construction Contracts and related interpretations.

- **Clarification of the provisions of IFRS 15: Revenue from contracts with customers**

The clarification of IFRS 15 was published on 12 April 2016 and applies to annual periods beginning on or after 1 January 2018 (in accordance with the effective date of the entire standard). The purpose of the amendments to the standard was to clarify concerns arising during pre-implementation analyses regarding: the identification of performance obligation, guidelines for the application of the standard in the matter of identification of the principal/agent and revenues from licenses related to intellectual property, and finally transitional periods upon the first application of the new standard.

- **Changes introduced by the entity independently**

The Company did not make any adjustments to the presentation of comparative data for the year ended 31 December 2018 and 31 December 2017. At the same time, in this consolidated financial statements an error of 2017 in the amount of PLN 79 thousand was corrected due to incorrect calculation of the corporate income tax. This value at the end of the presented period is disclosed in the item "Retained earnings/losses".

Non-binding standards (New standards and interpretations)

In the consolidated financial statement hereof, the Group did not decide on an earlier application of published standards or interpretations before their effective date.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee and have not yet come into force as at the balance sheet date.

- **MSSF 14 Regulatory Deferral Accounts**

The new standard was published on 30 January 2014 and applies to annual periods beginning on or after 1 January 2016. The new standard is of transitional nature in connection with the IASB's ongoing work on regulating the settlement of transactions under price regulation conditions. The standard introduces principles for recognising assets and liabilities arising in connection with transactions at regulated prices in the event when an entity decides to transition to IFRS.

An entity will apply the new standard no earlier than on the date determined by the European Union as the effective date of this standard. Due to the transitional nature of the standard, the European Commission decided not to initiate the formal procedure for endorsement of the standard and to await the target standard.

- **MSSF 16 Lease**

The new standard was published on 13 January 2016 and applies to annual periods beginning on or after 1 January 2019 and its earlier application is permitted (provided that IFRS 15 is applied simultaneously).

The standard replaces the existing lease regulations (including IAS 17) and radically changes the approach to lease agreements of different nature, obliging the lessee to disclose in the balance sheets assets and liabilities under the concluded lease agreements, regardless of their type.

International Financial Reporting Standard 16 Lease will replace International Accounting Standard 17 Lease and Interpretation IFRIC 4 - Determination whether the contract contains lease.

IFRS 16, in contrast to the separate recognition method currently used in the financial statements for operating and financial leases, introduces a uniform accounting model for all leases, in which the lessee recognizes in the statement of financial position a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Right-of-use asset, in the case of the cost model, is subject to depreciation and impairments. Depreciation of right-of-use assets, which will be presented in operating costs and interests on lease liabilities, which will be presented as financial costs, will replace lease payments, which are currently presented in operating costs.

In this financial statement, the Company classifies and presents as operating lease – the lease of cars. Note 39 presents the total amount of future minimum lease payments due to non-cancellable operating leases as at 31 December 2018. The Company carried out an analysis of the impact of IFRS 16 on the financial statement. However, the following key decisions on how to implement IFRS 16 have not yet been made:

- a) the method of transition to IFRS 16: full retrospective or retrospective with the combined effect of the first application (without transformation of comparative data),
- b) applying or not applying a practical solution in the scope of not re-assessing whether the contract is a lease or includes the lease, i.e. applying the classification currently applied to contracts concluded by the Company as at the date of application of IFRS 16, while recognizing the assets and liabilities related to these contracts,
- c) applying simplifications in the field of short-term lease and lease of low-value assets
- d) separation as an individual item of right-of-use asset or presenting them together with similar own assets.

The Management Board of the Company expects that IFRS 16 will not have a significant impact on the Company's financial statement, but due to the above, a reliable estimation of the impact is not possible at this stage.

- **MSSF 17 Insurance Contracts**

The new standard was published on 18 May 2017 and applies to annual periods beginning on or after 1 January 2021. Earlier application is permitted (subject to simultaneous application of IFRS 15 and IFRS 9). The standard supersedes the existing regulations concerning insurance contracts (IFRS 4).

- **Amendments to IFRS 10 and IAS 28: The sale or contribution of assets between the investor and its associate or joint venture**

The amendments to IFRS 10 and IAS 28 were published on 11 September 2014 and apply to annual periods beginning on or after 1 January 2016 (the effective date was deferred without indication of the initial date). The amendments clarify the accounting of transactions in which the dominant company loses control over a subsidiary which is not a “business” according to the definition set forth in IFRS 3 “Business Combinations”, by selling all or part of its shares in that subsidiary to an associate or joint venture accounted for using the equity method. The Company will apply the amendments to the standards not earlier than on the date set by the European Union as the effective date of this standard. Currently, the European Commission has decided to postpone the formal procedure for endorsement of the amended standards.

- **IFRIC 23 Uncertainty over Income Tax Treatments**

The new interpretation was published on 7 June 2017 and applies to annual periods beginning on or after 1 January 2019. The purpose of the interpretation is to specify how to recognize income tax in the financial statements in cases where the existing tax regulations may give rise to interpretation and deep difference of opinions between the entity and tax authorities.

- **Amendment to IFRS 9: Prepayment Features with Negative Compensation**

The amendment to IFRS 9 was published on 12 October 2017 and applies to annual periods beginning on or after 1 January 2019. Its purpose is to indicate the principles of valuation for financial assets which can be repaid earlier on the basis of contractual terms and, formally, could not meet the requirements of the “payment of capital and interest only” test, which would exclude their valuation at amortized cost or at fair value through other comprehensive income.

- **Amendments to IAS 28: Investments in Associates and Joint Ventures**

The amendment to IAS 28 was published on 12 October 2017 and applies to annual periods beginning on or after 1 January 2019. Its purpose is to specify the valuation principles for shares in associates and joint ventures in a situation where they are not valued under the equity method.

- **Amendments to different standards resulting from the annual review of the International Financial Reporting Standards (Annual Improvements 2015-2017)**

On 12 December 2017, as a result of the review of IFRS, minor amendments were introduced to the following standards:

- IFRS 3 Business Combinations, with respect to clarification that at the time of obtaining control, the entity remeasures its shares in joint ventures,
- IFRS 11 Joint Arrangements with respect to clarification that at the time of obtaining joint control, the entity does not remeasure its interests in joint ventures,
- IAS 12 Income Tax, indicating that any tax consequences of dividend payments shall be accounted for in the same way,
- IAS 23 Borrowing Costs indicating that borrowings that were originally intended to finance emerging assets should also be classified as general financing from the time the assets are available for use for their intended purpose (use or sale).

They apply to annual periods beginning on or after 1 January 2019.

- **Amendments to IAS 19: The amendments in Plan Amendment, Curtailment or Settlement**

Amendments to IAS 19 were published on 7 February 2018 and apply to annual periods beginning on or after 1 January 2019. The amendments concern the manner of remeasurement of defined benefit programs in case they are subject to change. The amendments to the standard imply that in the case of remeasurement of net asset/liability under a given plan, the revised assumptions should be applied to determine current employment and interest costs for periods after the plan change. To date, IAS 19 has not clarified this precisely.

- **Amendment to IFRS 3 Business Combinations**

The amendment to IFRS 3 was published on 22 October 2018 and applies to annual periods beginning on or after 1 January 2020. The purpose of the amendment was to clarify the definition of a business and to make it easier to distinguish acquisitions of "businesses" from groups of assets for the purposes of mergers settlement.

- **Amendments to IAS 1 and IAS 8: The changes in Definition of "Material"**

Amendments to IAS 1 and IAS 8 were published on 31 October 2018 and apply to annual periods beginning on or after 1 January 2020. The purpose of the amendments was to clarify the definition of "material" and facilitate its application in practice.

According to the Issuer's estimates, the above-mentioned standards, interpretations and amendments to standards will not have a significant impact on the Company's financial statements.

II. Going concern assumption and comparability of financial statements

The annual consolidated financial statement has been prepared on the assumption that the Company will continue as a going concern over 12 months following the last balance sheet date that is 31 December 2018. As at the date of signing the financial statement hereof, the Management Board of the Dominant Company does not identify any facts or circumstances that would indicate a threat to the continued operations in the period of 12 months after the balance sheet date and that would ensue from an intended or forced discontinuation or material limitation of current operations.

Until the date of preparation of the annual consolidated financial statement for the year 2018, there were no events that were not but should be recorded in the accounting records of the reporting period. At the same time, in this financial statement an error of 2017 in the amount of PLN 79 thousand was corrected in connection with incorrect calculation of the corporate income tax. This value at the end of the presented period is disclosed in the item "Retained earnings or losses".

III. Consolidation principles

The consolidated financial statement of LSI Software Group includes the financial statement of LSI Software S.A. and financial statements of entities (including jointly controlled subsidiary undertakings) controlled by LSI Software S.A. The company exercises the control if:

- has the power over a given entity,
- is subject to exposure, or has the rights, to variable returns from its involvement with a given entity
- has the ability to use its power over the entity to affect the amount of the investor's returns.

In the event of a situation that indicates a change in one or more of the foregoing control factors, the Company verifies its control over other entities. In the event where the Company holds less than a majority of voting rights in a given entity but held voting rights allow the Company an unilateral management of the relevant actions of this entity, this means that it exercises the power over this entity. In order to assess whether the Company has sufficient power, it should verify in particular:

- the number of the voting rights held by the Company compared to the number of votes held by other shareholders
- potential voting rights held by the Company, other shareholders or other parties,
- rights arising from other contractual arrangements,
- additional circumstances that may indicate that the Company has or does not have the power to manage the significant actions in decision-making processes.

a) Subsidiary undertakings

Subsidiary undertakings are fully consolidated starting from the date of obtaining control over them and cease to be consolidated from the date such control expires. The acquisition of subsidiaries by the Group is accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the transferred assets, equity instruments issued and liabilities incurred or assumed at the date of transfer, increased by costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair value at the acquisition date, irrespective of the size of any non-controlling interests. The excess of the acquisition price over the fair value of the entity's identifiable net assets is recognized as goodwill. Where the acquisition price is lower than the fair value of the identifiable entity's net assets, the difference is recognized as profit in the profit and loss account. Revenues and costs, settlements and unrealized gains on transactions between related entities covered by consolidation are subject to consolidation exclusions. Unrealized losses are subject to consolidation exclusions unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies applied by subsidiaries have been changed where necessary in order to ensure consistency with the policies adopted by the Group.

b) Non-controlling interests/shares and transactions with non-controlling shareholders

Non-controlling interests include interests in consolidated companies not held by the Group. Non-controlling interests are determined as the net value of the associate's assets attributable to the shareholders outside the Group as at the acquisition date. The identified non-controlling interests in the net assets of consolidated subsidiaries are recognized separately from the ownership interest of the Dominant Entity in such net assets. Non-controlling interests in net assets include:

- (i) value of non-controlling interests at the date of the original business combination, calculated in accordance with IFRS 3, and
- (ii) changes in equity attributable to non-controlling shares since the day of business combination.

Profits and losses and each component of other comprehensive income are attributed to the owners of the Dominant Entity and non-controlling interests. Total comprehensive income is attributed to owners of the Dominant Entity and non-controlling interests even if this results in the non-controlling interests having a negative value.

c) Affiliated undertakings

Affiliated undertakings are the entities on which the Group has a significant influence but which are not under the control of the Group. Significant influence means the ability to participate in decision-making processes associated with financial and operational policy of the investee. Exercising a significant influence does not mean exercising the control or co-control over this policy. Investments in affiliated undertakings are accounted for using the equity method and the initial recognition is determined according to cost. The Group's share in the financial result of the affiliated undertakings as from the date of acquisition is recognized in the profit and loss account, while its share in changes in other reserves as from the date of acquisition - in other reserves. The total changes since the date of acquisition are adjusted for the carrying value of the investment.

d) Joint Arrangements (joint venture and joint operations)

Joint Arrangements shall mean a contract under which two or more parties exercise joint control, which takes the form of either joint operations or joint venture.

A partner in the joint operations recognizes: its assets (including share in jointly held assets), its liabilities (including share in liabilities incurred jointly); revenues from the sale of its share of production resulting from the joint operation, its share of revenues from the sale of production made by the joint operation and its costs (including its share in jointly incurred costs).

A joint venture is a joint contractual arrangement under which parties exercising joint control over such joint venture, have rights to the net assets of this contractual arrangement. Joint contractual arrangements shall mean an arrangement over which two or more parties exercise the control, which means a contractually defined sharing of control over the contractual arrangement which only occurs when the decision concerns the operations requiring the unanimous consent of the parties exercising joint control. Joint ventures are accounted for using the equity method and initial recognition carried at cost.

e) Companies covered by the consolidated financial statement

The consolidated financial statement hereof for the periods ended on 31 December 2018 and 31 December 2017 covers the following entities being part of the Group:

Business name	Share in the total number of votes (%)	
	31.12.2018	31.12.2017
LSI Software S.A.	Dominant Entity	
LSI Software s.r.o.	100	100
GiP Sp. z o.o.	100	100
Positive Software USA LLC	100	100

f) Companies not covered by the consolidated financial statement

The following companies were not covered by the consolidated financial statement for the reporting period ended on 31 December 2018:

Business name	Share in the total number of votes (%)	Legal basis for non-consolidation
BluePocket S.A.	50	Loss of control

IV. Description of the applied accounting principles (policy), including methods of valuation of assets and liabilities, revenues and costs

The consolidated financial statement has been prepared on a historical cost basis, except for financial derivatives, financial instruments at fair value, which change is recognized in profit and loss account, available for sale financial assets, investments in immovable property, which were measured at fair value.

The carrying value of recognized hedged assets and liabilities is adjusted for changes in fair value that can be attributed to the risk against which these assets and liabilities are hedged. The consolidated financial statement hereof is presented in PLN ("PLN") and all figures, unless otherwise indicated, are expressed in thousands PLN.

Presentation of financial statements with consideration of operating segments

The margin analysis in product and structural terms (calculated according to internal methodology) is carried out in LSI Software Group. The share of particular departments or products in the generated margin calculated as 100% (for comparable periods) is subject to disclosure.

For the purposes of analyzing operating segments, the Company does not prepare individual accounts of particular departments or products. Such analysis is not implemented because individual departments carry out their tasks with the use of shared resources, and it is pointless (artificial) to assign them the costs in line with defined patterns. A similar principle applies to products, which are distributed using the same channels and resources.

The preparation of the above-described accounts, would entail additional costs and resources which is not reflected in the value of the information received.

Revenues and costs of operating activities

Revenue is the gross inflow of economic benefits (reduced by applicable taxes) during the period arising in the course of the ordinary activities of the Issuer when those inflows result in increases in equity, other than increases relating to contributions from equity participants. The amount of revenue arising on a transaction is measured at the fair value with consideration of the amount of any trade discounts and volume. Revenue is recognized if the significant risks and rewards of the ownership of the goods and products have been transferred to the buyer and the amount of revenue can be measured reliably.

Revenue from the sale of goods shall be recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. The percentage stage of completion of a transaction is determined as a relation of services performed to date to the total services to be performed. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized only to the extent of the expenses recognized that are recoverable.

Operating costs are expenses related to ordinary business activities of companies. Operating expenses include generic costs, such as the cost of goods sold, the cost of employee salaries, the cost of outsourced services, and the cost of used materials and energy.

Other revenues, costs, profits and losses

Other operating revenues and costs are items that are indirectly related to the core business of the company. Financial costs and revenues are recognized in the results of the period to which they relate, except for costs directly attributable to the acquisition, construction of the asset. The advances received against the expected dividend payable by the subsidiaries are recognized at the time of their receipt, thus analyzing the ability of the subsidiary to pay such dividend, i.e. whether such subsidiary has sufficient funds for the payment.

Government Grants

Government grants are recognized if and only if there is reasonable assurance that the entity will comply with the conditions related to the grant and that the grant will be received. The grant is accounted for in the same way regardless of whether it is received in cash or as a reduction of liability to the government. If a grant relates to a given cost item, it is recognized as revenue (or cost reduction) in proportion to the cost that the grant is intended to compensate.

If a grant relates to an asset, then its fair value is recognized in the profit and loss account over the life of a depreciable asset as a reduced depreciation charge. Grants are presented in assets by deducting the amount of a grant from the value of an asset that has been financed in whole or in part.

Taxes

LSI Software Group's companies are independent entities in terms of the budget settlement of income tax, thus the Group is not a tax capital group. The current income tax is recognized at nominal value using the balance sheet liability method. The applicable tax rates are used to determine the tax value in a given financial year. Income tax of foreign subsidiaries is determined according to applicable local tax law.

Deferred income tax

The provision for deferred tax is established using the balance sheet liability method in relation to the temporary differences between the tax value of assets and liabilities and their value disclosed in the financial statement. The deferred tax provision is recognized in relation to all significant taxable temporary differences.

Deferred income tax assets are recognized in relation to all significant deductible temporary differences. The carrying amount of the deferred income tax asset is reviewed at each balance sheet date. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of an asset or liability in a transaction that affects neither the taxable profit nor the accounting profit. The deferred tax liability is recognized for temporary tax differences arising from investments in subsidiaries and affiliated subsidiaries and joint ventures, unless the entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is recognized in profit and loss account, except when it relates to items recognized directly in equity. In the latter case, the deferred tax is also charged directly to equity. Deferred tax is recognized at the tax rates that will be applicable in the period in which the expected reversal of temporary differences occurs. If there is no certainty that the deductible temporary differences are reversed within the period provided for by applicable tax laws, the company shall waive the recognition of the deferred tax asset. Liabilities arising from taxable temporary differences are created to the full extent, regardless of future settlements of income tax. Deferred income tax assets and deferred tax provisions are not netted out.

Fixed tangible assets

Fixed tangible assets shall refer to buildings and structures, including leasehold improvements, machinery and devices, computer equipment, means of transport and other fixed assets. Buildings and structures (except for investments in third-party facilities), after initial recognition at fair value, are recognized at purchase price equivalent to the projected cost, less depreciation.

Fixed tangible assets are recognized at the historical acquisition price or manufacturing cost less depreciation. In the opinion of the Issuer, the carrying value of fixed tangible assets does not differ significantly from their fair value. Subsequent expenditures are taken into account at the carrying value (balance sheet value) of particular fixed asset or are recognized as a separate asset in the case of significant differences in terms of useful economic life periods of the separate parts of an asset.

Any other expenditures for repairs and maintenance are recognized in the profit and loss account. Fixed assets are redeemed on a straight-line basis as from the month of their operational readiness over the period corresponding to the estimated period of their useful economic life, excluding the residual value.

Useful life periods applied:

- buildings and structures – from 10 to 40 years
- machinery and devices - from 3 to 10 years
- means of transport – from 4 to 7 years
- other fixed assets - from 3 to 10 years
- own lands are not subject to depreciation.

Intangible assets

Intangible assets refer to the development costs and acquired property rights used by the entity. Other intangible assets are measured at historical acquisition price less depreciation, due to the fact that in the opinion of the Issuer, their carrying value does not differ significantly from the fair value. Intangible assets are depreciated on a straight-line basis over the period of estimated useful economic life while the residual value is negligible. The Group has no intangible assets with indefinite useful life periods. Goodwill on consolidation is not depreciated and is reviewed at the end of each period in terms of impairment.

Useful life periods applied:

- software licenses - 2 years
- development works - 5 years
- trademarks – 5 years
- property rights – 5 years

Impairment loss on non-financial assets

At each balance sheet date the Group's entities verify whether there is an objective evidence to confirm that the individual components of non-financial assets are impaired.

Investment property

Investment property is measured at fair value at inception and at each balance sheet date. Gains or losses arising from changes in the fair value of investment property are recognized in profit or loss for the period in which they arose, with consideration of the related effect on deferred tax.

The carrying value of investment property includes the cost of replacing a component of an investment property at the time this cost is incurred, provided that recognition criteria are met, and does not include the cost of current upkeep of that property. If there is a change in use of the property from investment property to owner-occupied property, it is transferred to fixed tangible assets and its fair value at the date of transfer is recognised as cost assumed for future recognition.

Lease

Finance lease agreements are activated at the inception of the lease, at the fair value of the leased asset or at the amount equal to the present value of the minimum lease payments, if it is lower than the fair value. The subsequent measurement is based on the present value of future minimum lease payments. Depreciation of the leased asset is calculated starting from the month of their readiness for operation, over the lease term or the estimated useful life.

Investments in subsidiary undertakings

Investments in subsidiaries are assets acquired in order to obtain the economic benefits from the increase in the value of those assets, and receipt of dividends or other profits from them. They are measured at acquisition cost less impairment losses.

With the exception of investments in subsidiaries, jointly controlled undertakings and affiliated undertakings recognized at acquisition cost in accordance with IAS 27 and IAS 28, financial assets and liabilities are recognized and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Financial assets and liabilities

Financial assets and financial liabilities are measured, according to the nature of the financial instrument, at fair value in the case of instruments traded on a stock exchange or measured at an adjusted acquisition price determined on the basis of the internal rate of return. Other financial liabilities include:

- lease liabilities,
- liabilities arising from the acquisition of financial assets (shares)
- liabilities arising from the acquisition of fixed assets.

Inventory

Commercial goods are received into the warehouse at the purchase price. The inventory issue valuation shall be performed with the use of 'first in-first out' principle, which is consistent with the requirements of accounting policy. Inventory at the year-end are valued at purchase prices and verified through physical inventory. As at each balance sheet date, the Group prepares an aging analysis of goods and on the basis of such analyses, recognizes impairment losses.

Trade and other receivables

Valuation of receivables as at the balance sheet day shall be carried out at the fair value of the payment less impairment losses.

Impairment losses shall also be established with regard to overdue debts and not overdue debts with a significant probability to become bad debts - at the amount of reliably estimated impairment loss. Mentioned impairment losses are recognized in other operating costs or in financial costs, depending on the types of business transactions, as a result of which these impairments arose.

Prepayments and accruals

According to the accrual principle, the Company's accounting records include all revenues earned and expenses attributable to that revenue for a given financial year, irrespective of the date of their payment. Costs related to future reporting periods are recognized in prepayments, divided into long-term and short-term:

- short-term- up to 12 months from the balance sheet date,
- long-term – more than 12 from the balance sheet date.

This division is variable and respectively to the change of the period of their further accounting as from the balance sheet date, prepayment will be reclassified. Prepayments classified to the assets are then, according to the passage of time or the amount of benefits, charged to the respective accounts - until the moment when all the costs previously classified to assets are transferred to the result. The time and manner of settlement depends on the nature of the accounted costs.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash in bank accounts and short-term deposits with an initial maturity not exceeding three months. Cash is measured at nominal value. In the case of funds held in bank accounts, the nominal value includes the interest accrued by the bank as at the balance sheet date, which represents financial income. The negative balance of the current account is recognized as a component of "Credits and loans" item.

Assets held for sale and discontinued operations

Fixed assets and net asset classes are classified as held for sale if their carrying amount is recovered primarily as a result of a sale transaction rather than as a result of their continued use. This condition is considered to be fulfilled only if the asset (or group of net assets held for sale) is available in its current condition for immediate sale and the sale transaction is highly probable within one year from the date of reclassification. Fixed assets classified as held for sale and group of net assets held for sale are measured at the lower of the two following values: the carrying value or fair value reduced by selling costs.

Share capital

Share capital is recognized in the consolidated balance sheet at the amount specified in the Articles of Association of the Dominant Entity and entered in the relevant court register. The share capital results from the acquisition of shares in the Dominant Entity by its shareholders and is recognized at nominal value in the amount equal to the product of the number of shares and nominal value of a share in accordance with the Articles of Association and entry in the court register.

Reserves and provisions

Reserves and provisions are recognized when Group's companies have an existing legal or constructive obligation resulting from past events and it is probable that fulfillment of this obligation will result in the outflow of resources embodying economic benefits and a reliable estimate of the amount of the obligation can be made but the final amount or the maturity of this obligation are uncertain. Where the impact of the time value of money is material (employee benefits), the amount of the provision is determined by discounting the projected future cash flows to the present value, using a discount rate reflecting current market assessments of the value of money and risks associated with the obligation. Provisions for employee benefits (retirement benefits and jubilee awards) are charged to operating costs. Other provisions are recognized in operating costs or financial costs, depending on the circumstances under which the liability arises.

Employee benefits

Employee benefits represent a group of liabilities and provisions that are calculated on the basis of reliable estimates and relate to the employees of individual companies. Provisions for liabilities arising from employee benefits are created in cases where the above obligation results from the applicable law, the existing corporate remuneration system, collective labor agreement or other agreements concluded with employees. Companies recognize a provision for the costs of accumulated paid absences, which will have to be incurred as a result of unused employee entitlements which accrued at the balance sheet date. The provision for the costs of accumulated paid absences is a short-term provision and is not discounted.

Bank borrowings and loans

At the time of initial recognition, all bank borrowings, loans and debt securities are recognized at purchase price corresponding to the fair value of the cash received, reduced by the costs associated with obtaining a given loan. After initial recognition, interest-bearing credits and loans are subsequently measured at adjusted purchase price with the use of the effective interest rate method.

When calculating the adjusted purchase price, consideration is given to the costs of obtaining a credit or a loan, as well as to discounts or premium on the settlement of the liability. Profits and losses are recognized in the profit and loss account once the liability has been removed from the balance sheet as well as upon the calculation of impairment.

Trade and other liabilities

Trade liabilities include all trade payables, irrespective of the contractual term of their payment, and this part of other which is indisputable and due at the balance sheet date. Other liabilities are all those commitments that cannot be attributed to trade liabilities.

Share-based payments

Share-based payments are recognized as cost of employee benefits in the period in which they are actually performed.

External borrowing costs

External borrowing costs are recognized as costs in the period in which they are incurred in accordance with the benchmark approach set out in IAS 23. Borrowing costs are recognized as an expense when they are incurred, unless they can be directly attributed to the acquisition, construction or production of an asset. Borrowing costs are then capitalized as part of the acquisition price or manufacturing cost of the asset.

Dividend payment

Dividends payable are recognized in financial revenues as at the date of adoption by the competent body of the company of the resolution on profit distribution, unless the resolution specifies a different dividend day. Dividend payments to shareholders are recognized in the books of account as a liability in the period during which such payments were approved by the General Meeting.

Functional and presentation currency

a) Functional and presentation currency

Items included in the financial statements are measured in the currency of the primary economic environment in which the Company operates ("functional currency"). The financial statements are presented in Polish zlotys (PLN), which is the functional currency and presentation currency of the Group.

b) Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the date of the transaction. Exchange gains and losses on the settlement of these transactions and the balance-sheet valuation of the pecuniary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account unless they are deferred in equity when they qualify to recognize them as cash flow hedge and hedge of a share in net assets.

V. Material values based on professional judgment and estimates

a) Professional judgment

When applying accounting policy to the issues mentioned below, professional judgment of the management, along with accounting estimates, have been of key importance.

Classification of lease agreements

The Group classifies the lease as operating or financial based on an assessment of the extent to which the risks and benefits arising on ownership of a leased asset lie with the lessor and the lessee. This assessment is based on the economic content of each transaction. The lease agreements concerning the means of transport were classified as financial lease. Group companies did not recognize the contracts in which they would act as the lessor.

b) Uncertainty of estimates

Below is a list of the key assumptions concerning the future and other key sources of uncertainty occurring as at the balance sheet date which entail a significant risk of material correction of the carrying amounts of assets and liabilities within the next financial year.

Impairment of Assets

The Group regularly monitors the usefulness of the assets to the business operations. Where there is evidence of impairment of an asset, an impairment test is performed.

Valuation of provisions

Provisions for employee benefits were estimated using actuarial methods. The assumptions adopted for this purpose are presented in note 43. The change in the financial ratios underlying the estimate, i.e. the increase in the discount rate by 1% and the decrease in the payroll ratio by 1% would cause a decrease in the provision by PLN 0.1 thousand.

Provisions for unused leaves were estimated for individual companies on the basis of the available human resources, financial and accounting information. Provisions are calculated at the end of the financial year on the basis of the actual number of days of unused leaves in the current period and increased by the number of days of unused leave from previous periods. The number of days for each employee obtained in such manner is multiplied by the average daily rate based on the average salary applied for determination of the remuneration payable for the leave. Provisions for unused leaves are calculated at the end of each year, i.e. the adjustment of provisions for costs actually incurred in connection with unused leaves is made at the end of each year.

Component of deferred tax assets

The Group recognizes a component of deferred tax assets based on the assumption that future taxable profits will enable its use. Deterioration of generated tax results in future could make this assumption unjustified.

Fair value of financial instruments

The fair value of financial instruments for which there is no active market is measured using appropriate valuation methods. When selecting the appropriate methods and assumptions, the Group uses the professional judgment. The method of determining the fair value of individual financial instruments is presented in note 12 and note 46.

Recognition of revenues

The Group applies the percentage of completion method in the settlement of long-term contracts. Using this method requires the Group to estimate the proportion of works done so far in relation to all services and works which are to be performed. If the ratio was 10% higher than the Group's estimates, the revenue would have been increased by PLN 100 thousand with a simultaneous increase in costs by PLN 80 thousand.

Amortization/Depreciation rates

Amortization/depreciation rates are based on the expected economic useful lives of tangible fixed assets and intangible assets. The Group annually reviews the adopted economic useful lives based on current estimates.

In 2017, the change was made with regard to estimates related to the anticipated periods of economic usefulness of fixed tangible assets and intangible assets in GiP Sp. z o.o.

Extension of the depreciation periods resulted in a reduction of operating costs in 2017 by PLN 152 thousand with a simultaneous decrease in other operating revenues due to subsidies by the amount of PLN 93 thousand. The above change will have a similar effect on subsequent reporting periods.

Goodwill and intangible assets with an indefinite useful life - impairment test

In accordance with the Group's policy, the Management Board of a Dominant Entity performs as at 31 December the annual impairment test of cash-generating units to which goodwill, costs of uncompleted development works and intangible assets with an indefinite useful life are assigned. For each interim reporting date, the Management Board of a Dominant Entity reviews conditions indicating the possibility of permanent impairment of cash generating units to which goodwill and / or intangible assets with indefinite useful lives are assigned. If such indications are identified, the impairment test is carried out at the interim balance sheet date. Each time, performing an impairment test requires estimating the value in use of a unit or a group of cash-generating units to which goodwill and / or intangible assets with an indefinite useful life are assigned. The estimation of value in use consists in determining future cash flows generated by the unit or units and establishing the discount rate, which is then used to calculate the present value of these cash flows.

VI. Changes in accounting principles (policy)

In 2018 there were no changes in the applied accounting principles (policy) and the applied principles do not differ significantly from the valuation and measurement principles indicated for the Group in 2017. Also the principles of valuation of assets and liabilities and measurement of financial result have not changed.

E. ADDITIONAL NOTES AND EXPLANATIONS TO THE CONSOLIDATED FINANCIAL STATEMENT

Note 1. SALES REVENUES

In accordance with IAS 18, revenues from the sale of products, goods, materials and services, less value added tax, rebates and discounts are recognized when the significant risk and benefits of ownership have been transferred to the buyer.

Sales revenues and total revenues of the Group are as follows:

	01.01 - 31.12.2018	01.01 - 31.12.2017
Continued operations		
Sales of goods and materials	23 443	24 992
Sales of products	8 212	5 448
Sales of services	16 012	17 128
Sales revenues, TOTAL	47 667	47 568
Other operating revenues	1 999	1 398
Financial revenues	202	251
Revenues on contined operations, TOTAL	49 868	49 217
Revenues on discontinued operations	0	0
TOTAL REVENUES	49 868	49 217

Revenues on discontinued operations were not recognized.

Note 2. OPERATING SEGMENTS

The Group has adopted as the primary reporting format – division into geographic segments, that segments which are associated with performing the business operations in different geographic areas, defined by the location of the markets. Two segments were identified:

- domestic market (Poland),
- other countries.

For the purposes of analyzing operating segments, the Company does not prepare individual accounts of particular departments or products. Such analysis is not implemented because individual departments carry out their tasks with the use of shared resources, and it is pointless (artificial) to assign them the costs in line with defined patterns. A similar principle applies to products, which are distributed using the same channels and resources. The Group operates primarily in Poland. Revenues generated by off-shore segments are less than 6% of the relevant values.

Sales revenues - detailed geographic structure

	01.01 -31.12.2018		01.01 -31.12.2017	
	in PLN	Share %	in PLN	Share w %
Poland	44 949	94%	45 857	96%
Export, including:	2 718	6%	1 711	4%
European Union	2 144	4%	1 517	3%
Countries of the former USSR		0%		0%
USA		0%	3	0%
Asia	515	1%	79	0%
Other	59	0%	112	0%
Total	47 667	100%	47 568	100%

Przychody według segmentów rynkowych

	01.01 - 31.12.2018		01.01 - 31.12.2017	
	in PLN	Share %	in PLN	Share w %
Retail, including:	9 837	21%	10 487	22%
Goods	5 036	51%	5 973	57%
Licenses	719	7%	832	8%
Services, including	4 082	41%	3 682	35%
Fixed fees	2 902	-	2 647	-
Hospitality, including:	34 877	73%	34 051	72%
Goods	16 673	48%	17 390	51%
Licenses	7 493	21%	4 616	14%
Services, including	10 711	31%	12 045	35%
Fixed fees	5 562	-	5 198	-
Other, including:	2 952	6%	3 031	6%
Goods	1 734	59%	1 629	54%
Outsourcing	1 043	35%	1 150	38%
Rent/Tenancy	176	6%	252	8%
Total, including:	47 667	100%	47 568	100%
Goods	23 443	49%	24 992	53%
Licenses	8 212	17%	5 448	11%
Services	14 793	31%	15 726	33%
Outsourcing	1 043	2%	1 150	2%
Rent/Tenancy	176	0%	252	1%

Gross margin according to market segments

	01.01 -31.12.2018			01.01 -31.12.2017		
	in PLN	Share %	Profitability ratio	in PLN	Share %	Profitability ratio
Retail, including:	2 491	22%	25%	2 936	22%	28%
Goods	1 617	65%	32%	1 884	64%	32%
Licenses	251	10%	35%	260	9%	31%
Services	623	25%	15%	792	27%	21%
Hospitality, including:	8 037	71%	23%	9 563	72%	28%
Goods	6 194	77%	37%	6 047	63%	35%
Licenses	815	10%	11%	1 424	15%	31%
Services	1 028	13%	10%	2 093	22%	17%
Other, including:	807	7%	27%	818	6%	27%
Goods	581	72%	34%	492	60%	30%
Outsourcing	158	20%	15%	249	30%	22%
Rent/Tenancy	68	8%	39%	77	9%	31%
Total, including:	11 335	100%	24%	13 317	100%	28%
Goods	8 392	74%	36%	8 423	63%	34%
Licenses	1 066	9%	13%	1 684	13%	31%
Services	1 651	15%	11%	2 884	22%	18%
Outsourcing	158	1%	15%	249	2%	22%
Rent/Tenancy	68	1%	39%	77	1%	31%

Note 3. OPERATING COSTS

COSTS BY TYPE	01.01 -31.12.2018	01.01 -31.12.2017
Amortisation/depreciation	3 703	3 370
Consumption of materials and energy	1 649	1 830
Outsourced services	10 967	9 038
Taxes and charges	569	595
Remunerations	10 543	11 198
Social insurance and other benefits	1 968	2 140
Other costs	1 787	1 820
Guarantee provisions	0	0
Total costs by type, including:	31 186	29 991
Change in products	-3 630	-3 819
Cost of manufacturing of a product for the entity's own needs (negative value)	0	0
Selling costs (negative value)	-2 284	-4 659
General and administrative costs (negative value)	-3 991	-3 831
Manufacturing costs of products and services sold	21 281	17 682

DEPRECIATION COSTS AND IMPAIRMENT LOSSES PRESENTED IN THE PROFIT AND LOSS ACCOUNT	01.01 - 31.12.2018	01.01 - 31.12.2017
Items included in cost of sales:	3 599	2 176
Depreciation of fixed assets	646	432
Depreciation of intangible assets	2 953	1 744
Items included in selling costs:	0	291
Depreciation of fixed assets	0	82
Depreciation of intangible assets	0	209
Items included in general and administrative costs	104	903
Depreciation of fixed assets	92	181
Depreciation of intangible assets	12	722

EMPLOYMENT COSTS	01.01 -31.12.2018	01.01 -31.12.2017
Remunerations	10 543	11 198
Social insurance and other benefits	1 968	2 140
Employee benefits, TOTAL, including:	12 511	13 338
Items included in cost of sales	11 089	11 902
Items included in selling costs	216	817
Items included in general and administrative costs	1 177	619

Note 4. OTHER OPERATING REVENUES AND COSTS

OTHER OPERATING REVENUES	01.01 - 31.12.2018	01.01 - 31.12.2017
Profit from disposal of fixed assets	73	51
Release of provisions	68	100
Release of impairment loss on assets	289	110
Penalties, fines and damages received	98	168
Government grants	1 430	726
Liabilities write-offs	22	0
Rent	0	199
Other	19	44
TOTAL	1 999	1 398

OTHER OPERATING COSTS	01.01 -31.12.2018	01.01 -31.12.2017
Loss on disposal of fixed assets	0	0
Recognition of provisions	0	1
Liabilities write-offs	18	0
Penalties and compensations paid	44	0
Recognition of impairment	316	305
Court fees and costs	8	0
Other	31	192
TOTAL	417	498

RECOGNITION OF IMPAIRMENT LOSSES	01.01 - 31.12.2018	01.01 - 31.12.2017
Receivables	19	199
Inventory	8	-4
TOTAL	27	195

Note 5. FINANCIAL REVENUES AND COSTS

FINANCIAL REVENUES	01.01 -31.12.2018	01.01 -31.12.2017
Interest revenues	129	66
Surplus of foreign exchange gains	73	185
Other	0	0
TOTAL	202	251

FINANCIAL COSTS	01.01 -31.12.2018	01.01 -31.12.2017
Interest costs	116	113
Other	0	12
TOTAL	116	125

Disclosure of revenues, costs, profits or losses by categories of financial instruments

01.01 – 31.12.2018	Measurement at amortized cost	Measurement at fair value through profit or loss	Measurement at fair value through other comprehensive income
Revenues/costs arising on measurement at fair value	0	0	0
Revenues/costs arising on measurement at fair value transferred to equity	0	0	0
Interests revenues/costs	0	13	0
Interest revenues related to impaired assets	0	0	0
Recognition of impairment losses	0	0	0
Reversal of impairment losses	0	0	0
Foreign exchange gains/losses	0	73	0
Gains/losses on disposal of financial assets	0	0	0
Amount transferred from equity to profit and loss account being the result of hedge accounting application	0	0	0
Costs related to derivative instruments	0	0	0
Profit/loss - TOTAL	0	86	0

01.01 – 31.12.2017	Measurement at amortized cost	Measurement at fair value through profit or loss	Measurement at fair value through other comprehensive income
Revenues/costs arising on measurement at fair value	0	0	0
Revenues/costs arising on measurement at fair value transferred to equity	0	0	0
Interests revenues/costs	0	-47	0
Interest revenues related to impaired assets	0	0	0
Recognition of impairment losses	0	0	0
Reversal of impairment losses	0	0	0
Foreign exchange gains/losses	0	185	0
Gains/losses on disposal of financial assets	0	0	0
Amount transferred from equity to profit and loss account being the result of hedge accounting application	0	0	0
Costs related to derivative instruments	0	12	0
Profit/loss - TOTAL	0	126	0

Note 6. INCOME TAX AND DEFERRED INCOME TAX

The main components of the tax burdens for the years ended 31 December 2018 and 2017 are as follows:

INCOME TAX DISCLOSED IN THE PROFIT AND LOSS ACCOUNT	01.01 - 31.12.2018	01.01 - 31.12.2017
Current income tax	578	785
Relating to the financial year	578	785
Deferred income tax	83	29
Related to the occurrence and reversal of temporary differences	83	29
Tax burden disclosed in the consolidated income statement	661	814

The deferred tax recognized in the income statement is the difference between deferred tax liabilities and deferred tax assets at the end and the beginning of the reporting period.

CURRENT INCOME TAX	01.01 - 31.12.2018	01.01 - 31.12.2017
Profit before tax	6 728	5 853
Previous years' revenues increasing the tax base	51	19
Non-taxable revenue	2 283	1 566
Previous years' costs decreasing the tax base	1 167	797
Non-deductible costs	2 434	2 147
Taxable income	5 763	5 656
Deductions from income - donation, loss, R&D relief	3 277	2 133
Tax base	2 486	3 523
Income tax at the rate of 19%	472	669
Effective tax rate (share of income tax in pre-tax profit)	9,8%	13,9%

The current part of income tax was set at a rate of 19% as the income tax base. Tax related to foreign tax jurisdictions was not identified.

NEGATIVE TEMPORARY DIFFERENCES BEING THE BASIS FOR RECOGNITION OF DEFERRED INCOME TAX ASSETS	31.12.2017	increases	decreases	31.12.2018
Provision for jubilee awards and retirement benefits	0	2	0	2
Accrued employee holiday provision	195	87	195	87
Other provisions	132	0	100	32
Lease liabilities	942	19	0	961
Outstanding costs of delegations	16	3	16	3
Foreign exchange losses	121	0	26	95
Remunerations and social insurance payable in the subsequent periods	242	48	0	290
Impairment loss on shares in other entities	2 305	0	0	2 305
Impairment loss on inventory	463	8	203	268
Impairment loss on receivables	342	0	71	271
Other	-147	115	0	-32
Total negative temporary differences	4 611	282	611	4 282
tax rate	19%	19%	19%	19%
Deferred income tax assets	876	54	116	814

POSITIVE TEMPORARY DIFFERENCES BEING THE BASIS FOR RECOGNITION OF DEFERRED INCOME TAX PROVISION	31.12.2017	increases	decreases	31.12.2018
Foreign exchange gains and accrued interest	455	0	63	392
Valuation of fixed assets under lease	1 587	120	0	1 707
Accrued interest	223	53	0	276
Total positive temporary differences	2 265	173	63	2 376
tax rate	19%	19%	19%	19%
Deferred income tax provision at the end of reporting period	431	33	12	451

Net deferred income tax assets / provisions

	31.12.2018	31.12.2017
Deferred income tax asset	814	876
Deferred income tax provision – continuing operations	451	431
Net deferred income tax assets / provisions	363	445

Note 7. DISCONTINUED OPERATIONS

There were no discontinued operations in the reporting period.

Note 8. PROFIT PER SHARE

Profit per share is calculated by dividing the net profit for the period attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares issued during the period. Diluted profit per share is calculated by dividing net profit for the period attributable to ordinary shareholders (net of interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of ordinary shares issued during the period (adjusted for dilutive options and dilutive redeemable preferred shares convertible into ordinary shares).

Continued and discontinued operations

The calculation of profit per share was based on the following information:

	01.01 -31.12.2018	01.01 -31.12.2017
Net profit from continued operations	6 067	5 039
Profit recognized for the purposes of calculating the basic profit per share	6 067	5 039
Effect of dilution:		
- interest on redeemable preference shares convertible into ordinary shares	0	0
- interest on bonds convertible into shares	0	0
Profit recognized for the purposes of calculating the diluted profit per share	6 067	5 039

Number of shares issued

	01.01 -31.12.2018	01.01 -31.12.2017
Weighted average number of shares recognized for the purposes of calculating the basic profit per share per share (in pcs.)	3 260 762	3 260 762
Effect of dilution of the number of ordinary shares		
- share options	0	0
- bonds convertible into shares	0	0
Weighted average number of shares recognized for the purposes of calculating the diluted profit per share per share (in pcs.)	3 260 762	3 260 762

During the period between the balance sheet date and the date of preparation of this financial statement, there were no other transactions concerning ordinary shares or potential ordinary shares.

Note 9. DIVIDENDS PROPOSED OR ADOPTED UNTIL THE DAY OF FINANCIAL STATEMENT APPROVAL

Financial year ended:	Dividend on ordinary shares			Interim dividend payment		
	Payment date	Amount	Amount per share	Payment date	Amount	Amount per share
31.12.2018	-	0	0	-	0	0
31.12.2017	-	0	0	-	0	0

Note 10. DISCLOSURE OF OTHER COMPONENTS OF COMPREHENSIVE INCOME

	01.01 - 31.12.2018	01.01 - 31.12.2017
Changes in surplus arising on revaluation:	0	0
- Increase resulting from the revaluation of assets during the year		
- Decrease resulting from the revaluation of assets during the year		
Profit (loss) on revaluation of available-for-sale financial assets:	0	0
- Profit on the revaluation of assets during the year		
- Loss on the revaluation of assets during the year		
- Adjustment arising on reclassification to the profit and loss account		
The effective portion of profit and loss related to cash flow hedging instruments:	0	0
- Profit generated during the year		
- Loss incurred during the year		
- Adjustment arising on reclassification to the profit and loss account		
- Adjustment of amounts transferred to the initial carrying amount of hedged items		
Actuarial profit (loss) on defined retirement benefit plans:	0	0
Actuarial profit on defined retirement benefit plans		
Actuarial loss on defined retirement benefit plans		
Exchange rate differences from valuation of entities operating abroad	0	0
- Adjustment arising on reclassification to the profit and loss account		
Share in comprehensive income of affiliated undertakings		
Income tax related to components of other comprehensive income	0	0
Comprehensive income, total	0	0

Note 12. FAIR VALUE

Fair value measurements of the Group's land and buildings as at 31 December 2018 and 31 December 2017 were carried out based on appraisal report of 19 August 2016 prepared by an independent appraiser who is a member of the Polish Chamber of Property Appraisal and has adequate qualifications and experience in terms of fair value measurement of the property. The Management Board of the entity verified the value of the appraisal report as at 31 December 2018 and in his opinion the market conditions have not changed since the above valuation.

Class of assets / liabilities	Date of valuation	TOTAL	Fair value determined on the basis of:		
			Prices quoted in an active market Level 1	Significant observable data Level 2	Significant non-observable data Level 3
Assets measured at fair value					
Investment property					
- office space	19.08.2016	223			223
- retail space	31.12.2018				
Derivatives					
- Currency forward contract - USD	31.12.2018				
Financial assets available for sale					
- shares listed on the stock exchange					
- unlisted shares	31.12.2018				
- listed debt securities					
Revalued tangible fixed assets					
- office immovable property	19.08.2016	277			277
Discontinued operations					
	31.12.2018				
Assets which fair value is subject to disclosure					
Loans granted and own receivables					
- loans granted to subsidiaries	31.12.2018				
- loans granted to Management Board	31.12.2018				
- loans granted to Supervisory Board	31.12.2018	235			235
Liabilities measured at fair value					
Derivatives					
- Currency forward contract - USD	31.12.2018	6		6	
- interest rate swap	31.12.2018				
Conditional payment (IFRS 3.58)					
	31.12.2018				
Liabilities which fair value is subject to disclosure					
Interest-bearing credits and loans					
- Floating-rate-loan in PLN	31.12.2018	1 548		1 548	

In the period ended 31 December 2018, there were no transfers between level 1 and 2 of the fair value hierarchy.

Note 13. FIXED TANGIBLE ASSETS

Ownership structure

OWNERSHIP STRUCTURE - net value	31.12.2018	31.12.2017
Own	6 006	4 078
Used on the basis of a rental, lease or other contract, including lease agreements	1 760	1 728
Total	7 766	5 806

Fixed tangible assets in relation to which the legal title is subject to restrictions and which serve as a security for liabilities

Title of liability / restrictions on transferability	31.12.2018	31.12.2017
- security for own credits and loans	5 427	3 533
- security for third-party credits and loans	0	0
- security for other liabilities	0	0
- used under finance lease	1 760	1 728
The carrying value of tangible fixed assets subject to restrictions on transferability or being a security for liabilities	7 187	5 261

The Group's companies have the option of buying out the leased assets after expiration of lease contracts. The amount of liabilities in this respect can therefore be estimated as 1% of the value of the leased asset.

Changes in fixed assets (by category) - for the period 01.01.2018-31.12.2018

	Lands	Buildings and structures	Machines and devices	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross balance sheet value as at 01.01.2018	520	3 731	1 554	4 170	336	62	10 373
Increases, due to:	0	2 006	113	708	4	431	3 262
- acquisition of fixed assets		391	113		4	431	939
- Own-account production of fixed assets							0
- business combinations							0
- lease agreements				708			708
- revaluation							0
- received contribution							0
- other		1 615					1 615
Decreases, due to:	0	0	859	923	54	493	2 329
- disposal				923			923
- liquidation			859		54		913
- sale of a subsidiary undertaking							0
- revaluation							0
- contribution made							0
- other						493	493
Gross balance sheet value as at 31.12.2018	520	5 737	808	3 955	286	0	11 306
Redemption as at 01.01.2018	0	718	1 372	2 195	282	0	4 567
Increases, due to:	0	112	65	539	22	0	738
- amortisation and depreciation		112	65	539	22		738
- revaluation							0
- other							0
Decreases, due to:	0	0	852	860	53	0	1 765
- liquidation			852		53		905
- disposal				860			860
- revaluation							0
- other							0
Redemption as at 31.12.2018	0	830	585	1 874	251	0	3 540
Impairments as at 01.01.2018	0	0	0	0	0	0	0
Increases, due to:	0	0	0	0	0	0	0
- impairment loss							0
- other							0
Decreases, due to:	0	0	0	0	0	0	0
- reversal of impairments							0
- liquidation or disposal							0
- other							0
Impairments as at 31.12.2018	0	0	0	0	0	0	0
Net exchange differences on translation of the financial statement to the presentation currency							0
Net balance sheet value as at 31.12.2018	520	4 907	223	2 081	35	0	7 766

Changes in fixed assets (by category) - for the period 01.01.2017-31.12.2017

	Lands	Buildings and structures	Machines and devices	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross balance sheet value as at 01.01.2017	520	3 447	1 381	3 741	306	3	9 398
Increases, due to:	0	284	189	978	33	202	1 686
- acquisition of fixed assets		284	74	448	17	202	1 025
- Own-account production of fixed assets							0
- business combinations			115	530	16		661
- lease agreements							0
- revaluation							0
- received contribution							0
- other							0
Decreases, due to:	0	0	16	549	3	143	711
- disposal				549	3	143	695
- liquidation			16				16
- sale of a subsidiary undertaking							0
- revaluation							0
- contribution made							0
- other							0
Gross balance sheet value as at 31.12.2017	520	3 731	1 554	4 170	336	62	10 373
Redemption as at 01.01.2017	0	640	1 194	1 718	236	0	3 788
Increases, due to:	0	78	194	1 000	48	0	1 320
- amortisation and depreciation		78	79	525	32		714
- revaluation							0
- other			115	475	16		606
Decreases, due to:	0	0	16	523	2	0	541
- liquidation			16				16
- disposal					2		2
- revaluation							0
- other				523			523
Redemption as at 31.12.2017	0	718	1 372	2 195	282	0	4 567
Impairments as at 01.01.2017	0	0	0	0	0	0	0
Increases, due to:	0	0	0	0	0	0	0
- impairment loss							0
- other							0
Decreases, due to:	0	0	0	0	0	0	0
- reversal of impairments							0
- liquidation or disposal							0
- other							0
Impairments as at 31.12.2017	0	0	0	0	0	0	0
Net exchange differences on translation of the financial statement to the presentation currency							0
Net balance sheet value as at 31.12.2017	520	3 013	182	1 975	54	62	5 806

Fair value measurements of the Group's immovable property as at 31 December 2018 were carried based on valuation report of 19 August 2016 prepared by an independent appraiser. The Management Board of the entity verified the value of the appraisal report as at 31 December 2018 and in his opinion the market conditions have not changed since the above valuation. In 2016 the revaluation was made in the amount of PLN 277 thousand which was charged to financial result of preceeding period.

Fixed assets under construction

As at 01.01.2018	Expenditures incurred in the financial year	Settlement of expenditures				Impairments	As at 31.12.2018
		Buildings, premises and civil engineering facilities	Technical devices and machines	Means of transport	Other fixed assets		
62	431	391	102	0	0	0	0

As at 01.01.2017	Expenditures incurred in the financial year	Settlement of expenditures				Impairments	As at 31.12.2017
		Buildings, premises and civil engineering facilities	Technical devices and machines	Means of transport	Other fixed assets		
3	202	143	0	0	0	0	62

Value and area of land under perpetual usufruct (not applicable to foreign companies)

Address	Number of Land register	Parcel number	Area of a parcel [m ²] as at 31.12.2018	Value as at 31.12.2018	Area of a parcel [m ²] as at 31.12.2018	Value as at 31.12.2018
93-120 Łódź Przybyszewskiego 176/178 St.	-	231/12 231/58 231/32	4 975	520	4 975	520
TOTAL			4 975	520	4 975	520

Lands and buildings are a security for the benefit of mBank S.A. with regard to loans granted. In the presented period there was no capitalization of borrowing costs and no impairments on fixed assets were recognized.

Fixed assets under lease

Fixed assets	31.12.2018			31.12.2017		
	Gross value	Redemption	Net value	Gross value	Redemption	Net value
Immovable property	0	0	0	0	0	0
Machines and devices	54	16	38	37	3	34
Means of transport	2 378	656	1 722	2 153	473	1 680
Other fixed assets	25	25	0	25	11	14
Total	2 457	697	1 760	2 215	487	1 728

The carrying amount of machines and devices being in use as at 31 December 2018 under financial lease agreements and lease agreements with a repurchase option is PLN 1,760 thousand (as at 31 December 2017: PLN 1,728 thousand).

Note 14. INTANGIBLE ASSETS

Changes in intangible assets (by category) - for the period 01.01.2018-31.12.2018

	Development costs ¹	Trademarks ²	Patents and licenses ²	Software ²	Other ²	Intangible assets under construction	Total
Gross balance sheet value as at 01.01.2018	18 300	0	0	0	10 636	0	28 936
Increases, due to:	8 299	0	0	0	93	0	8 392
- acquisition	4 148				93		4 241
- acquisitions of business entities							0
- other	4 151						4 151
Decreases, due to:	2 442	0	0	0	2 646	0	5 088
- disposal							0
- liquidation							0
- revaluation							0
- other	2 442				2 646		5 088
Gross balance sheet value as at 31.12.2018	24 157	0	0	0	8 083	0	32 240
Redemption as at 01.01.2018	11 024	0	0	0	6 873	0	17 897
Increases, due to:	2 912	0	0	0	1 170	0	4 082
- amortisation and depreciation	1 797				1 168		2 965
- revaluation							0
- other	1 115				2		1 117
Decreases, due to:	0	0	0	0	1 672	0	1 672
- liquidation							0
- disposal							0
- revaluation							0
- other					1 672		1 672
Redemption as at 31.12.2018	13 936	0	0	0	6 371	0	20 307
Impairments as at 01.01.2018	0	0	0	0	0	0	0
Increases, due to:	0	0	0	0	0	0	0
- impairment loss							0
- other							0
Decreases, due to:	0	0	0	0	0	0	0
- reversal of impairments							0
- liquidation or disposal							0
- other							0
Impairments as at 31.12.2018	0	0	0	0	0	0	0
- Net exchange differences on translation of the financial statement to the presentation currency							0
Net balance sheet value as at 31.12.2018	10 221	0	0	0	1 712	0	11 933

¹ Own-account production, ² Acquired/established as a result of business combinations

Changes in intangible assets (by category) - for the period 01.01.2017-31.12.2017

	Development costs ¹	Trademarks ²	Patents and licenses ²	Software ²	Other ²	Intangible assets under construction	Total
Gross balance sheet value as at 01.01.2017	14 979	0	0	0	7 745	0	22 724
Increases, due to:	3 321	0	0	0	2 891	0	6 212
- acquisition					427		427
- revaluation					2 464		2 464
- acquisitions of business entities	3 321						3 321
- other	0	0	0	0	0	0	0
Decreases, due to:							0
- disposal							0
- liquidation							0
- revaluation							0
- other	18 300	0	0	0	10 636	0	28 936
Gross balance sheet value as at 31.12.2017	10 471	0	0	0	3 844	0	14 315
Redemption as at 01.01.2017	1 041	0	0	0	3 181	0	4 222
Increases, due to:	1 041				1 615		2 656
- amortisation and depreciation							0
- revaluation					1 566		1 566
- other	488	0	0	0	152	0	640
Decreases, due to:							0
- liquidation							0
- disposal							0
- revaluation	488				152		640
- other	11 024	0	0	0	6 873	0	17 897
Redemption as at 31.12.2017	0	0	0	0	0	0	0
Impairments as at 01.01.2017	0	0	0	0	0	0	0
Increases, due to:							0
- impairment loss							0
- other	0	0	0	0	0	0	0
Decreases, due to:							0
- reversal of impairments							0
- liquidation or disposal							0
- other	0	0	0	0	0	0	0
Impairments as at 31.12.2017							0
- Net exchange differences on translation of the financial statement to the presentation currency							0
Net balance sheet value as at 31.12.2017	14 979	0	0	0	7 745	0	22 724

¹ Own-account production, ² Acquired/established as a result of business combinations

In the reporting period no impairment losses on intangible assets were recognized.

The Group reviews annually the adopted periods of economic useful life on the basis of current estimates. In 2018, there were no significant changes in the depreciation rates applied by the Issuer. The manufacturing costs of an intangible asset are determined and capitalized in accordance with the accounting policy of the Group. The determination of the moment at which the capitalization of costs commences is subject to professional judgement of the management as to the possibility (technological and economic) of completing the project. This moment is determined by reaching a stage (milestone) of a project in which the Group has reasonable assurance that it is able to complete a given intangible asset so that it is suitable for use or sale and that future economic benefits achieved as a result of use or sale will exceed the manufacturing cost of a given intangible asset. Thus, while determining the value of costs that may be capitalized, the Management Board estimates the present value of future cash flows generated by a given intangible asset. Every year and as at each balance sheet date, as at which there is a relevant indication of impairment, intangible assets are subject to an impairment test. Such a test requires an estimation of the recoverable amount of a cash-generating unit and is usually performed using the discounted cash flow method, which involves the need to make estimates with respect to future cash flows, changes in working capital and the weighted average cost of capital.

In connection with the presentation of subsidies in assets, by deducting the amount of subsidies from the value of the component of assets financed with such subsidies in whole or in part, the value of development work was reduced in 2018 by PLN 1,660 thousand and in 2017 by PLN 1,527 thousand. In addition, in 2018 the Company performed the following projects co-financed from public funds, from ERDF funds and from national funds from the state budget (earmarked subsidies):

Project	Value of the project	The value of the subsidy according to the contract
A new generation IT system for managing the SMART CINEMA facility as a result of R&D works performed by LSI Software S.A.	3 942	1 750
Innovative, new generation IT system for hotel facility management in an interactive model	2 000	880
TOTAL	5 942	2 630

Ownership structure

	31.12.2018	31.12.2017
Own	11 933	11 039
Used under a rental, lease or other contract, including lease agreements	0	0
Total	11 933	11 039

Note 15. GOODWILL

In 2018 LSI Software SA merged with Softech Sp. z o.o. therefore, goodwill associated with this subsidiary is no longer presented. Detailed information on the merger was disclosed in Note 59 to the Separate Financial Statements of LSI Software S.A. for the year 2018.

	31.12.2018	31.12.2017
Softech Sp. z o.o.	0	4 427
LSI Software s.r.o.	8	8
GiP Sp. z o.o.	2 514	2 514
Positive Software USA LLC	0	0
Net goodwill	2 522	6 949

Changes in goodwill on consolidation

	31.12.2018	31.12.2017
Gross balance sheet value at the beginning of the period	6 949	4 435
Increases, due to:	0	2 514
Acquisition of an entity	0	2 514
Adjustments resulting from subsequent recognition	0	0
Decreases, due to:	4 427	0
Sale of a subsidiary	4 427	0
Net exchange differences from translation of the financial statements into the presentation currency	0	0
Gross balance sheet value at the end of the period	2 522	6 949
Impairment losses at the beginning of the period	0	0
Impairment losses recognized during the period	0	0
Other changes	0	0
Impairment losses at the end of the period	0	0
Net goodwill	2 522	6 949

Business combinations for the period of 01.01.2017 - 31.12.2017

Wyszczególnienie	Date of acquisition	Percentage of acquired capital instruments with voting rights	Cost of a business combination	Fair value of the net assets of the acquired entity attributable to the acquirer	Goodwill acquired as part of a business combination	Excess of the acquirer's share in the fair value of net assets over the cost of the combination*
GiP Sp. z o.o.	01.02.2017	100%	4 653	1 950	2 514	-
TOTAL VALUE	X	X	4 653	1 950	2 514	0

* Indication of the item of the profit and loss account in which such surplus was recognized

Goodwill being the result of business combination and copyrights with an indefinite useful life have been allocated to the following cash generating units:

- unit BA - goodwill on acquisition of GiP Sp. z o.o.

Unit A

The recoverable value of unit A was determined based on the value in use calculated on the basis of cash flow projection based on financial budgets covering a five-year period approved by senior management. A discount rate of 19% was applied to cash flow forecasts (unit operates within the Group since 1 February 2017). The growth rate used to extrapolate cash flows of an entity in this segment beyond the five-year period is estimated using the growth rate at the same level as the current growth rate of the Group.

Key assumptions adopted for calculation of the value in use

The calculation of the value in use of A unit and the B unit is the most sensitive to the following variables:

- EBITDA margin;
- discount rates;
- increase of the remuneration level;
- market share during the budget period; and
- the growth rate used to estimate cash flows beyond the budget period.

EBITDA margin - EBITDA margin is based on average values achieved in the three years preceding the budget period. During the budget period, the EBITDA margin increases by the forecasted improvement in efficiency. The Group applied the growth rate of 10% per annum for A unit.

Discount rate - the discount rate reflects the management's estimate of the risk typical for each unit. It is an indicator used by the management to assess operational effectiveness (results) and future investment proposals. In determining the discount rates for each cash-generating unit, the profit on 10-year Treasury bonds at the beginning of the budget year was taken into account.

Increase in the level of remuneration - Estimates regarding changes in the remuneration level are made on the basis of planned rate of salary increase in the economy. Forecasted data is used when it is available, otherwise - data on changes in past remuneration are used as an indicator of future changes.

Market share assumptions - These assumptions are important because in addition to using industry data for the growth rate (as described below), the management assesses how the financial situation of the Group may change over the budget period in comparison to the competition. The management expects that the Group's share in the IT market will be stable during the budget period. Estimated growth rate - Growth rates are based on published industry research results.

Sensitivity to changes in assumptions

In the case of estimating the value in use of A unit, there is a possibility of reasonably justified changes to the adopted assumptions and these changes may result in the fact that carrying value of the unit exceeds its recoverable amount. The current recoverable value of A unit exceeds its carrying value by PLN 5,913 thousand

Note 16. INVESTMENT PROPERTY

Investment property measured at fair value

	31.12.2018	31.12.2017
Gross balance sheet value at the beginning of the period	2 479	2 479
Increases, due to:	0	0
- revaluation	0	0
Decreases, due to:	1 615	0
- reclassifications from and to another asset category	0	0
Gross balance sheet value at the end of the period	864	2 479

Fair value measurements of the Group's investment property as at 31 December 2018 and 31 December 2017 were carried out based on appraisal report of 19 August 2016 prepared by an independent appraiser who is a member of the Polish Chamber of Property Appraisal and has adequate qualifications and experience in terms of fair value measurement of the property.

The Management Board of the entity verified the value of the appraisal report as at 31 December 2018 and in his opinion the market conditions have not changed since the above valuation.

The table below presents the value of revenues and direct costs related to the rental of investment property executed in 2018 and 2017.

	01.01 -31.12.2018	01.01 -31.12.2017
Revenues from rental of investment property	110	185
Direct operating rental costs	64	108
Profits (losses) from rental of investment property	46	77

Note 17. INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

Due to resignation on 10 March 2015 of former president of the Management Board of BluePocket S.A. and failure to appoint a new Management Board of this company, by the day of preparation of the report hereof, the Issuer did not receive financial statements of BluePocket S.A. for the years 2014 - 2018. At the same time, due to the fact that the meetings of the Supervisory Board are not attended by members appointed by Bastion Venture Fund sp. z o.o. S.K.A. as a Shareholder, LSI Software S.A. is not able to independently appoint the Management Board of BluePocket S.A. which results in the actual lack of the Issuer's ability to govern financial and operating policy of this entity.

Note 18. SHARES/PARTICIPATING INTERESTS IN NON-CONSOLIDATED SUBORDINATED UNDERTAKINGS

	31.12.2018	31.12.2017
Shares/Participating interests in companies not listed on the stock exchange (non-consolidated)	2 307	2 307
Shares of companies listed on the stock exchange (non-consolidated)	0	0
Total	2 307	2 307

Note 19. OTHER FIXED ASSETS

In the years 2017-2018 the item was not recognized.

Note 20. FINANCIAL ASSETS AVAILABLE FOR SALE

In the years 2017 - 2018 the Group's companies had no financial assets classified as held for sale.

Note 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets measured at fair value through profit or loss are presented in Note 12.

Note 22. OTHER FINANCIAL ASSETS

Short-term investments	31.12.2018	31.12.2017
Loans granted, including:	235	253
- to Management and Supervisory Board	235	253
Cash flow hedging instruments	0	0
TOTAL	235	253

Loans granted

	31.12.2018	31.12.2017
Loans granted, including:	235	253
- to Management and Supervisory Board	235	253
Impairment losses	0	0
Net amount of loans granted	235	253
- long-term	0	0
- short-term	235	253

Loans granted, including to the Management Board

Borrower	Loan amount according to agreement	Balance sheet value	Interest rate		Repayment date	Security
			Nominal	effective		
As at 31.12.2018						
Grzegorz Siewiera	240	235	3%	3%	28-02-2018	promissory note
As at 12.2017						
Grzegorz Siewiera	240	253	3%	3%	28-02-2018	promissory note

Change in financial instruments

01.01– 31.12.2018	Financial assets at fair value through profit or loss	Financial assets held to maturity	Financial assets available for sale	Loans granted and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities
Opening balance	0	0	0	253	0	0
Increases	0	0	0	7	0	0
Loans granted	0	0	0	0	0	0
Interest accrued at the effective interest rate	0	0	0	7	0	0
Decreases	0	0	0	25	0	0
Repayment of loans granted	0	0	0	25	0	0
Closing balance	0	0	0	235	0	0

01.01.– 31.12.2017	Financial assets at fair value through profit or loss	Financial assets held to maturity	Financial assets available for sale	Loans granted and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities
Opening balance	0	0	0	247	0	0
Increases	0	0	0	7	0	0
Loans granted	0	0	0	0	0	0
Interest accrued at the effective interest rate	0	0	0	7	0	0
Decreases	0	0	0	1	0	0
Repayment of loans granted	0	0	0	1	0	0
Closing balance	0	0	0	253	0	0

Cash flow hedges

	Financial assets	
	31.12.2018	31.12.2017
Fair value at the beginning of the period	0	4
Acquisition, recognition, incurring	0	0
Disposal, release, repayment	0	4
Fair value at the end of the period	0	0
- long-term	0	0
- short-term	0	0

Type of transaction	Date of transaction	Duration of transaction	Basic amount	Fair value
As at 31.12.2018				-6
Forward valuation in USD	14.11.2018	11.01.2019	79	-4
Forward valuation in USD	17.12.2018	14.02.2019	147	-2
As at 31.12.2017				-9
Forward valuation	16.11.2017	16.01.2018	76	-9

Result on cash flow hedges recognized directly in comprehensive income

	31.12.2018	31.12.2017
Accumulated result on cash flow hedges at the beginning of the period	-9	4
The amount recognized in comprehensive income during the reporting period on account of effective hedging transactions	0	0
Valuation recognized in the profit and loss account	3	-4
Amount transferred from comprehensive income to the profit and loss account during the financial period	0	0
Result on cash flow hedges accumulated in the comprehensive income at the end of the period	-6	0

Note 23. INVENTORY

Inventory is measured at the purchase price or manufacturing costs not higher than its net selling price realizable at the balance sheet date. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the costs necessary to perform the sale transaction.

	31.12.2018	31.12.2017
Goods	3 183	3 097
Gross inventory	3 183	3 097
Impairment loss	247	239
Net inventory, including:	2 936	2 858
- the carrying amount of inventories recognized in the fair value less selling costs	0	0
- the carrying amount of inventories pledged as collateral	0	0

Inventory in the period of 01.01. – 31.12.2018

	Materials	Semi-finished products and production in progress	Finished products	Goods	Total
Value of inventory recognized as an expense in the period	0	0	0	255	255
Impairment loss on inventory recognized as an expense in the period	0	0	0	0	0
Impairment loss on inventory reversed during the period	0	0	0	0	0

Inventory aging analyses in the period of 01.01. – 31.12.2018

	Overdue payments in days				Total
	0-90	91-180	181-360	>360	
Goods (gross)	1 445	771	628	339	3 183
Goods (impairment)	0	0	0	247	247
Goods (net)	1 445	771	628	92	2 936

Change in impairment losses on inventory

	Materials	Semi-finished products and production in progress	Finished products	Goods	Impairment losses -Total
As at 01.01.2018	0	0	0	239	239
Increases, including:	0	0	0	8	8
- recognition of impairment loss in correspondence with other operating costs	0	0	0	8	8
Decreases, including:	0	0	0	0	0
- release of impairment loss provisions in correspondence with other operating income	0	0	0	0	0
As at 31.12.2018	0	0	0	247	247
As at 01.01.2017	0	0	0	224	224
Increases, including:	0	0	0	19	19
- other	0	0	0	19	19
Decreases, including:	0	0	0	4	4
- release of impairment loss provisions in correspondence with other operating income	0	0	0	4	4
As at 31.12.2017	0	0	0	239	239

The reason for the recognition of impairment losses on inventory is their accumulation over a long period and the associated impairment loss. Borrowing costs were not capitalized in the amount of inventory. The value of goods with over 360 days stockholding includes slow-moving goods, service parts and equipment, which LSI Software S.A. is obliged to immediately deliver to the service users in the event of failure of the Client's equipment

Note 24. CONTRACT FOR CONSTRUCTION SERVICES

Item was not recognized.

Note 25. TRADE RECEIVABLES

	31.12.2018	31.12.2017
Trade receivables	9 118	8 284
- from associates	0	0
- from other undertakings	9118	8 284
Impairment	1 960	1 941
Gross trade receivables	11 078	10 225

Trade and other receivables are not interest-bearing and usually have a 14-day payment period. The Group pursues a policy of selling only to verified customers. As a result, in the opinion of the Management Board, there is no additional credit risk, above the level determined by impairment losses on bad debts.

Change in impairment loss on trade receivables

	31.12.2018	31.12.2017
Associates		
Impairment loss on trade receivables at the beginning of the period	0	0
Increases, including:	68	0
- on past due and disputable receivables	68	0
Decreases, including:	0	0
- use	0	0
Impairment loss on trade receivables at the end of the period	68	0
Other undertakings		
Impairment loss on trade receivables at the beginning of the period	1 941	1 717
Increases, including:	94	398
- on past due and disputable receivables	94	312
- acquisition of a subsidiary	0	86
Decreases, including:	143	174
- use	0	98
- reversal of impairment loss in connection with the repayment of receivables	143	76
Impairment loss on trade receivables from other undertakings at the end of the period	1 892	1 941
Impairment loss on trade receivables at the end of the period	1 960	1 941

Trade receivables claimed at court

	31.12.2018	31.12.2017
Trade receivables claimed at court	1 960	1 941
Impairment loss on disputable receivables	1 960	1 941
Net amount of trade receivables claimed at court	0	0

Note 26. OTHER RECEIVABLES

	31.12.2018	31.12.2017
Other receivables, including:	1 125	1 208
- taxes, with the exception of corporate income tax	111	1 208
- other	1 014	0
Impairment losses on other receivables	0	0
Other receivables - gross	1 125	1 208

	31.12.2018	31.12.2017
Other receivables, including:	1 125	1 208
From associates	0	0
From other undertakings	1 125	1 208
Impairment	0	0
Other receivables - gross	1 125	1 208

Note 27. PREPAYMENTS AND ACCRUED INCOME

	31.12.2018	31.12.2017
- Property (non-life) insurance and Subscription of newspapers	183	159
- advance invoices	140	149
- other prepayments	2	34
Prepayments and accrued income	325	342

Note 28. CASH AND CASH EQUIVALENTS

	31.12.2018	31.12.2017
Cash on hand and in bank accounts:	880	2 834
on hand	189	273
in bank accounts	691	2 561
Cash equivalents	5 845	761
Cash in transit	0	1
Overnight deposits	5845	760
Other cash assets:	0	0
Cash on hand and in bank accounts attributed to discontinued operations	0	0
Total	6 725	3 595

Cash in bank accounts is subject to variable interest rates, which depend on the interest rate on one-day bank deposits. Short-term deposits are made for different periods, from one day to one month, depending on the Group's current cash requirements and bear the relevant interest. The fair value of cash and cash equivalents as at 31 December 2018 amounts to PLN 6,725 thousand (31 December 2017: PLN 3,595 thousand).

Restricted cash and cash equivalents	31.12.2018	31.12.2017
Performance bond	25	100
Total	25	100

As at 31 December 2018, the Group had unused credit facilities in the amount of PLN 2,000 thousand (31 December 2017: PLN 1,675 thousand), in relation to which all the conditions precedent have been met.

Cash at the disposal of the entity, not shown in the balance sheet item	31.12.2018	31.12.2017
Social benefits fund	10	28
Available, unused cash under revolving credit	2 000	1 675
TOTAL	2 010	1 703

Note 29. SHARE CAPITAL

Share capital - structure

Series/issue	Type of preference	Type of limitation of rights to shares	Number of shares	Unit value in PLN	Series / issue value at nominal value	Type of contribution	Registration date
A-series, bearer and registered	-	-	600	1	600	cash	09-1998
B-series, registered	5 votes	-	400	1	400	contribution	09-1999
C-series, registered	-	-	46	1	46	cash	09-1999
C-series, registered	-	-	29	1	29	cash	09-1999
D-series, registered	-	-	268	1	268	cash	09-1999
E-series, registered	-	-	236	1	236	cash	08-2000
F-series, registered	-	-	59	1	59	cash	08-2000
G-series, registered	-	-	428	1	428	cash	07-2006
I-series, registered	-	-	1 000	1	1 000	cash	03-2007
J-series, registered	-	-	195	1	195	cash	06-2008

As at the date of the financial statement publication, 400 000 B-series registered shares are multiple-vote securities which means that each share entitles to five (5) votes at the General Meeting of the Company, giving a total of 2 000 000 votes held by Grzegorz Siewiera. The shares of all series are equally preferred as to dividends and return on equity.

Share capital – structure as at 31 December 2018 (continuation)

Shareholder	Number of shares	% share capital	Number of votes	% votes
SG Invest Sp. z o.o./ Grzegorz Siewiera	1 000 000	30,67%	2 600 000	53,49%
Yavin Limited / Piotr Kraska	457 644	14,03%	457 644	9,42%
Inmuebles Polo SL	250 000	7,67%	250 000	5,14%
Other shareholders	1 502 633	46,08%	1 502 633	30,91%
LSI Software S.A. (own/treasury shares)	50 485	1,55%	50 485	1,04%
Total	3 260 762	100,00%	4 860 762	100,00%

Change in share capital

	31.12.2018	31.12.2017
Share capital at the beginning of the period	3 261	3 261
Increases, due to:	0	0
Decreases, due to:	0	0
- hyperinflation		
Share capital at the end of the period	3 261	3 261

All shares issued have a nominal value of PLN 1 and have been fully paid up.

Note 30. SHARE PREMIUM

The supplementary capital was established from the share premium in the amount of PLN 9,615 thousand, which was reduced by the costs of issue of shares recognized as a decrease in the supplementary capital. In 2018 the Company's supplementary capital was decreased by PLN 4,774 thousand due to the merger of LSI Software SA with Softech Sp. z o.o.

Note 31. OTHER RESERVES

In accordance with Resolution No 7/2017 of the Ordinary General Meeting held on 30 June 2017, the Management Board of LSI Software S.A. closed the Share Buyback Program with effect from 31 December 2018. The Share Buyback Program ended due to the expiry of the time limit specified in the resolution. Pursuant to the Resolution of the General Meeting of Shareholders, the Issuer's Management Board was authorised to purchase 326,076 Issuer's shares for a price not lower than PLN 2 and not higher than PLN 19, and the total purchase price of these shares could not exceed the amount of PLN 2,060,000. This amount included the purchase price of the acquired shares and acquisition costs. LSI Software SA was entitled to acquire shares until 31 December 2018. Below the information on the results of the Share Buyback Program commenced on 23 October 2017 is presented:

- the total number of shares acquired by the Company within the Share Buyback Program amounts to 50,485 and corresponds to 50,485 votes at the General Meeting of the Company;
- the total number of shares acquired so far accounts for 1.55% of the Company's share capital and the total number of votes at the Company's General Meeting;
- the nominal value of one share is PLN 1, and the total nominal value of the acquired shares amounts to PLN 50,485;
- the average unit acquisition price of the shares was PLN 11.99;
- PLN 1,452,559.86 remained from the special-purpose fund in the amount of PLN 2,060,000;
- the Company's own shares acquired by the Company may be used:
 - a) for redemption of shares and reduction of the Company's share capital
 - b) to offer shares to members of the Company's Management Board and key managers and employees of the Company (the "Incentive Scheme").

Other reserves

	31.12.2018	31.12.2017
Statutory capital reserve (supplementary capital)	8 150	12 924
Revaluation reserve	0	0
Remaining supplementary capital	2 060	2 060
Own shares (-)	-609	-150
TOTAL	9 601	14 834

Change in other reserves

	Statutory capital reserve	Revaluation reserve	Reserve capital	Own shares	Total
As at 01.01.2018	12 924	0	2 060	-150	14 834
<i>Increases in the period:</i>	0	0	0	-459	-459
Valuation of financial assets available for sale	0	0	0	0	0
Deferred tax on the above adjustments	0	0	0	0	0
Net cash flow hedges	0	0	0	0	0
Deferred tax on the above adjustments	0	0	0	0	0
Distribution/coverage of net profit/loss	0	0	0	0	0
Equity component of an incentive program for employees	0	0	0	-459	-459
<i>Decreases in the period:</i>	4 774	0	0	0	4 774
Valuation of financial assets available for sale	0	0	0	0	0
Deferred tax on the above adjustments	0	0	0	0	0
Business combination	4 774	0	0	0	4 774
Deferred tax on the above adjustments	0	0	0	0	0
Distribution/coverage of net profit/loss	0	0	0	0	0
Equity component of an incentive program for employees	0	0	0	0	0
As at 31.12.2018	8 150	0	2 060	-609	9 601
As at 01.01.2017	11 212	0	1 884	-14	13 082
<i>Increases in the period:</i>	1 884	0	0	3	1 887
Valuation of financial assets available for sale	0	0	0	0	0
Deferred tax on the above adjustments	0	0	0	0	0
Net cash flow hedges	0	0	0	0	0
Deferred tax on the above adjustments	0	0	0	0	0
Distribution/coverage of net profit/loss	1 884	0	0	0	1 884
Equity component of an incentive program for employees	0	0	0	3	3
<i>Decreases in the period:</i>	0	0	1 884	0	1 884
Valuation of financial assets available for sale	0	0	0	0	0
Deferred tax on the above adjustments	0	0	0	0	0
Net cash flow hedges	0	0	0	0	0
Deferred tax on the above adjustments	0	0	0	0	0
Distribution/coverage of net profit/loss	0	0	1 884	0	1 884
Equity component of an incentive program for employees	0	0	0	0	0
As at 31.12.2017	13 096	0	0	-11	13 085

Note 32. RETAINED EARNINGS

Retained earnings include amounts that are not subject to distribution i.e. cannot be paid in the form of dividends:

	31.12.2018	31.12.2017
Amounts included in retained earnings not subject to payment in the form of a dividend:		
retained earnings	13 927	8 967
TOTAL	13 927	8 967

Note 33. EQUITY ATTRIBUTABLE TO NON-CONTROLLING SHAREHOLDERS

Item was not recognized.

Note 34. CREDIT FACILITIES AND LOANS

	31.12.2018	31.12.2017
Overdrafts	0	825
Credit facilities	1 548	1 429
Total of credit facilities and loans, including:	1 548	2 254
- long-term	1 080	1 079
- short-term	468	1 175

Maturity structure of credit facilities and loans

	31.12.2018	31.12.2017
Short-term credit facilities and loans	468	1 175
Long-term credit facilities and loans	1 080	1 079
- payable within 1 year – 3 years	928	1 050
- payable within 3 years – 5 years	153	29
- payable within more than 5 years	0	0
Credit facilities and loans, total	1 548	2 254

Credit facilities and loans – as at 31.12.2018

Name of a bank / a lender and type of a loan / a credit facility	Amount of a credit/loan acc. to agreement	Outstanding amount	Effective interest rate %	Repayment date	Collateral
mBank S.A. - overdraft	2 000	0	Wibor + bank's margin	26.09.2019	Contractual joint mortgage on immovable property
mBank S.A. – investment facility	1 750	1 079	Wibor + bank's margin	31.01.2022	Contractual joint mortgage on immovable property
mBank S.A. – investment facility	575	469	Wibor + bank's margin	31.01.2023	Contractual joint mortgage on immovable property
TOTAL	4 325	1 548			

Credit facilities and loans – as at 31.12.2017

Name of a bank / a lender and type of a loan / a credit facility	Amount of a credit/loan acc. to agreement	Outstanding amount	Effective interest rate %	Repayment date	Collateral
mBank S.A. - overdraft	2 500	825	Wibor + bank's margin	27.09.2018	Contractual joint mortgage on immovable property
mBank S.A. – investment facility	1 750	1 429	Wibor + bank's margin	31.01.2022	Contractual joint mortgage on immovable property
TOTAL	4 250	2 254			

Currency structure of credit facilities and loans

	31.12.2018		31.12.2017	
	Value in currency	Value in PLN	Value in currency	Value in PLN
PLN	1 548	1 548	2 254	2 254
EUR	0	0	0	0
USD	0	0	0	0
GBP	0	0	0	0
CHF	0	0	0	0
Credit facilities and loans, total	X	1 548	X	2 254

Note 35. OTHER FINANCIAL LIABILITIES

	31.12.2018	31.12.2017
Lease liabilities	1 051	729
Liabilities arising from the acquisition of shares	0	1 150
Cash flow hedges	6	9
Other	0	0
Total financial liabilities	1 057	1 888
- long-term	503	522
- short-term	554	1 366

Lease liabilities

	31.12.2018	31.12.2017
Short-term lease liabilities	548	207
Long-term lease liabilities, including:	503	522
- 1 year – 5 years	503	522
- over 5 years	0	0
Lease liabilities, total	1 051	729

Cash flow hedges

	31.12.2018	31.12.2017
Fair value – opening balance	9	0
Acquisition, recognition, commitment	6	9
Disposal, dissolution, repayment	9	0
Fair value – closing balance	6	9
- long-term	0	0
- short-term	6	9

Type of transaction	Date of transaction	Duration of transaction	Basic amount	Fair value
As at 31.12.2018				6
Forward valuation in USD	14.11.2018	11.01.2019	79	4
	17.12.2018	14.02.2019	147	2
As at 31.12.2017				9
Forward valuation in USD	16.11.2017	16.01.2018	76	9

Result on cash flow hedges recognized directly in comprehensive income

	31.12.2018	31.12.2017
Accumulated result on cash flow hedges – opening balance	-9	0
The amount recognized in comprehensive income during the reporting period on account of effective hedging transactions	0	0
Valuation recognized in the profit and loss account	3	-9
Amount transferred from comprehensive income to the profit and loss account during the financial period	0	0
Result on cash flow hedges accumulated in the comprehensive income – closing balance	-6	-9

Note 36. OTHER LONG-TERM LIABILITIES

The item was not recognized.

Note 37. TRADE LIABILITIES

Trade Liabilities

	31.12.2018	31.12.2017
Trade Liabilities	5 000	5 995
To associates	0	0
To other undertakings	5 000	5 995

Trade liabilities - overdue structure

	Total	Non-overdue	Overdue, but recoverable			
			< 90 days	91 – 180 days	181 – 360 days	>360 days
31.12.2018	5 000	2 411	1 480	28	3	1 078
To associates	0	0	0	0	0	0
To other undertakings	5 000	2 411	1 480	28	3	1 078
31.12.2017	5 995	3 461	1 326	26	24	1 158
To associates	0	0	0	0	0	0
To other undertakings	5 995	3 461	1 326	26	24	1 158

Note 38. OTHER LIABILITIES

Other short-term liabilities

	31.12.2018	31.12.2017
Liabilities due to other taxes, duties, social insurance and other, except corporate income tax	1 758	0
Other liabilities	940	142
- liabilities to employees on account of remunerations	558	0
- other liabilities	382	142
Accruals and deferred income	0	0
Other liabilities, total	2 698	142

Other short-term liabilities – - overdue structure

	Total	Non-overdue	Overdue, but recoverable			
			< 90 days	91 – 180 days	181 – 360 days	>360 days
31.12.2018	2 698	2 698	0	0	0	0
To associates	0	0	0	0	0	0
To other undertakings	2 698	2 698	0	0	0	0
31.12.2017	142	142	0	0	0	0
To associates	0	0	0	0	0	0
To other undertakings	142	142	0	0	0	0

Note 39. SOCIAL PROPERTY AND LIABILITIES ASSOCIATED WITH SOCIAL BENEFITS FUND

The Act of 4 March 1994 on the Company's Social Benefits Fund, as amended, states that the Social Benefits Fund is created by employers employing more than 20 full-time employees. The Group has such a fund and makes periodic write-offs in the amount of basic deductions / amounts agreed with the trade unions. Furthermore, the Fund holds the fixed assets. The purpose of the Fund is to subsidize the Group's social activities, loans granted to its employees and other social costs. The Group has offset the Fund's assets with its liabilities to the Fund as these assets are not the Group's separate assets.

The tables below present the analysis of the Fund's assets, liabilities, costs and net balance.

	31.12.2018	31.12.2017
Fixed assets contributed to the Fund	0	0
Loans granted to employees	0	0
Cash	10	28
Liabilities arising from the Fund	0	0
Balance after offsetting	10	28
Allowances for the Fund during the accounting period	51	51

Investment liabilities

As at 31 December 2017, the Group is obliged to pay the amount of PLN 1 150 thousand to former shareholders of GiP Sp. z o.o. due to the purchase of shares in this company. As at 31 December 2018, the item was not recognised.

Note 40. CONTINGENT LIABILITIES

	31.12.2018	31.12.2017
Loan repayment guarantee	500	1 500
Liabilities due to bank guarantees granted mainly as security for the performance of business contracts	2 065	2 716
Contingent liabilities, total	2 565	4 216

The Issuer has again granted a surety of up to PLN 500 thousand for the renewed overdraft facility agreement concluded on 9 August 2017 by the subsidiary GiP Sp. z o.o. with mBank S.A.

Furthermore, LSI Software S.A. granted performance guarantees to the following entities which are not members of the Group:

1. POSIFLEX TECHNOLOGY INC – in the amount of USD 450 thousand valid until 31 December 2019
2. AmRest Sp. z o.o. – in the amount of PLN 111 thousand on account of liabilities resulting from the concluded lease agreement
3. CaixaBank S.A.- in the amount of EUR 57 thousand with an indefinite expiry date.

On the other hand, GiP Sp. z o.o. granted a performance bond to PRO-BUD S.A. in the amount of PLN 17 thousand with an expiry date of 30 June 2020. The total value of guarantees and sureties granted by the Company as at 31 December 2018 amounts to PLN 2,565 thousand.

Contingent liabilities arising on guarantees and sureties granted

	Guarantee/surety granted to:	On account of	Currency	31.12. 2018	31.12. 2017
Surety for overdraft facility	GiP Sp. z o.o.	Credit facility	PLN	500	750
Performance bond	POSIFLEX TECHNOLOGY INC	Guarantee	USD	450	350
Guarantee of payment of liabilities under a lease agreement	AmRest Sp. z o.o.	Guarantee	PLN	111	111
Guarantee of timely payment	Leszek Guzowski	Guarantee	PLN	0	383
Guarantee of timely payment	Maciej Guzowski	Guarantee	PLN	0	383
Guarantee of timely payment	Marek Pawlak	Guarantee	PLN	0	383
Bank guarantee	CaixaBank S.A.	Guarantee	EUR	57	57
Performance of contractual guarantee obligations	PRO-BUD S.A.	Guarantee	PLN	17	0
Total				1 135	2 417

Note 41. SHORT-TERM AND LONG-TERM FINANCIAL LEASE RECEIVABLES AND LIABILITIES

As at 31 December 2018 and 31 December 2017, future minimum lease payments under these agreements and the current value of the minimum lease payments are as follows:

Liabilities under finance leases and hire purchase contracts

	31.12.2018		31.12.2017	
	Minimum payments	Present value of the payments	Minimum payments	Present value of the payments
In the period of 1 year	548	548	207	207
In the period of 1 year to 5 years	503	503	522	522
Over 5 years	0	0	0	0
Total minimum lease payments	1 051	1 051	729	729
Future interest expense	51	X	44	x
Present value of minimum lease payments, including:	1 000	1 051	685	729
- short-term		548		207
- long-term		503		522

Leased assets as at 31.12.2018

	With regard to asset classes				Total
	Land, buildings and structures	Machinery and equipment	Means of transport	Other fixed assets	
Means of transport	0	0	1 722	0	1 722
Other fixed assets	0	0	0	0	0
Machinery and equipment	0	38	0	0	38
Net carrying amount of leased assets	0	38	1 722	0	1 760

Note 42. PREPAYMENTS AND DEFERRED INCOME

	31.12.2018	31.12.2017
Subsidies	0	0
Deferred income	601	798
Advance invoices	601	798
Other	0	0
Prepayments and deferred income, including:	601	798
- long-term	0	0
- short-term	601	798

Note 43. PROVISION FOR RETIREMENT AND SIMILAR BENEFITS

	31.12.2018	31.12.2017
Provisions for retirement and disability benefits	2	2
Total, including:	2	2
- long-term	1	1
- short-term	1	1

The Group pays out retirement benefits to retired employees in the amount set forth in the Labor Code. As a result, the Group, on the basis of its own valuation, recognises a provision for the present value of the retirement severance pay liability. The amount of this provision and the reconciliation of changes during the period are presented in the table below:

Change in provisions

	Provisions for retirement and disability benefits	Provisions for jubilee awards	Provisions for holiday leave	Provisions for other employee benefits
As at 01.01.2018	2	0	0	0
Recognition	0	0	0	0
Costs of benefits paid	0	0	0	0
Release	0	0	0	0
As at 31.12.2018, including:	2	0	0	0
- long-term	1	0	0	0
- short-term	1	0	0	0
As at 01.01.2017	1	0	0	0
Recognition	1	0	0	0
Costs of benefits paid	0	0	0	0
Release	0	0	0	0
As at 31.12.2017, including:	2	0	0	0
- long-term	1	0	0	0
- short-term	1	0	0	0

Note 44. OTHER PROVISIONS

	31.12.2018	31.12.2017
Provision for annual leaves	87	78
Restructuring reserve	0	0
Provision for costs of court proceedings	32	100
Total, including:	119	178
- long-term	0	0
- short-term	119	178

Change in provisions

	Provision for annual leaves	Restructuring provision	Other provisions	Total
As at 01.01.2018	78	0	100	178
Recognition	87	0	0	87
Use	0	0	0	0
Release	78	0	68	146
As at 31.12.2018, including:	87	0	32	119
- long-term	0	0	0	0
- short-term	87	0	32	119
As at 01.01.2017	0	20	0	20
Recognition	78	0	100	178
Use	0	0	0	0
Release	0	20	0	20
As at 31.12.2017, including:	78	0	100	178
- long-term	0	0	0	0
- short-term	78	0	100	178

Restructuring provision

In 2015 the Group recognised a restructuring provision in connection with the planned changes in the structure of the Issuer. In 2017 the provision for anticipated internal restructuring costs in the amount of PLN 20 thousand was released due to completion of the process of preparing the merger of LSI Software SA with its subsidiary Softech Sp. z o.o.

Note 45. OBJECTIVES AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

Apart from derivative instruments, the main financial instruments used by the Company are bank loans, finance lease and hire-purchase agreements, cash and short-term deposits. The main purpose of these financial instruments is to ensure funding for the Company's operations. The Company also holds other financial instruments, such as trade receivables and payables arising directly in connection with business operations. The Company also concludes derivative transactions, mainly forward foreign exchange contracts. The purpose of these transactions is to manage the currency risk arising from the Company's operations and from its sources of financing. The policy applied by the Company at present and throughout the period covered by the audit is not trading in financial instruments except for investing the cash surplus in bonds with a short maturity date and higher interest rates than standard bank deposits. The main risks arising from the Company's financial instruments include interest rate risk, liquidity risk, currency risk and credit risk. The Management Board reviews and agrees principles for managing each of these risks - these principles are briefly discussed below. The Group also monitors the market price risk arising from all financial instruments held.

Exposure to market risk

Financial assets and liabilities 31.12.2018	Exposure to market risk		
	Currency		Interest rate
	EUR	USD	
Loans and receivables	0	0	235
Financial liabilities at fair value through profit or loss	0	0	2 605
Hedging instruments - liabilities	0	226	0

Financial assets and liabilities 31.12.2017	Exposure to market risk		
	Currency		Interest rate
	EUR	USD	
Loans and receivables	0	0	240
Financial liabilities at fair value through profit or loss	0	0	2 992
Hedging instruments - liabilities	0	76	0

Interest rate risk

The exposure of the Company to the interest rate risk relates primarily to long-term financial liabilities arising from bank loans and lease agreements. The Company manages interest costs by using both fixed and floating interest rate liabilities and by granting floating interest rate loans to other entities in order to balance the risk. Accordingly, the sensitivity of the statement against interest rate changes is insignificant, as interests on lease and loans do not exceed PLN 105 thousand per year. Any 10%-change in interest rate would result in a change in the financial result and equity at the level of PLN 11 thousand.

The table below presents the sensitivity of gross financial result to reasonably possible changes in interest rates, assuming that other factors remain unchanged (in connection with interest bearing assets and liabilities).

	Impact on gross financial result	Impact on equity	Impact on gross financial result	Impact on equity
	31.12.2018 + 10%/- 10%		31.12.2017 + 10%/- 10%	
Assets measured at amortized cost, including:				
- loans granted	+/- 1	0	+/- 1	0
- trade and other receivables	+/- 91	0	0	0
Assets measured at amortized cost, including:				
- credit and loans received	+/- 7	0	+/- 8	0
- trade and other liabilities	+/- 50	0	0	0
- other	0	0	0	0

Foreign exchange risk

The Company is exposed to foreign exchange risk arising from concluded transactions. This risk arises as a result of the operating entity making sales or purchases in currencies other than its functional currency. About 8% of sales transactions concluded by the Company is denominated in currencies other than the reporting currency of the operating unit making the sale, while more than 80 % of the cost of acquisition of goods is denominated in the reporting currency. The Company tries to negotiate terms and conditions of hedging derivatives so that they correspond to the terms and conditions of the hedged item and thus ensure maximum effectiveness of the hedge.

As at 31 December 2018, the Company hedged 100% of purchase transactions in foreign currencies (as at 31 December 2017 - 100%), in respect of which, as at the balance sheet date, there were firm commitments reaching the end of the first quarter of 2019. The table below presents the sensitivity of the gross financial result (due to the change in fair value of assets and liabilities) and the Company's equity due to the change in the fair value of forward contracts on reasonable fluctuations in exchange rates with the assumption that other factors remain unchanged:

Year ended 31 December 2018	Impact on gross financial result	Impact on equity	Impact on gross financial result	Impact on equity
	EUR + 10%/- 10%		USD + 10%/- 10%	
Financial liabilities measured at fair value through profit or loss	0	0	0	0
Hedging instruments - liabilities	0	0	+/- 85	0

Year ended 31 December 2018	Impact on gross financial result	Impact on equity	Impact on gross financial result	Impact on equity
	EUR + 10%/- 10%		USD + 10%/- 10%	
Financial liabilities measured at fair value through profit or loss	0	0	0	0
Hedging instruments - liabilities	0	0	+/- 8	0

Commodity price risk

Because of the significant share of purchases of commercial goods outside the territory of Poland, the Group is exposed to changes in commodity prices, which may, however, result primarily from the foreign exchange risk described above. The purpose of commodity price risk management is also to limit possible losses from changes in commodity prices to an acceptable level by shaping the structure of balance sheet commodity items. Commodity price risk management is carried out by imposing limits on the instruments generating commodity price risk, monitoring of their use and reporting the risk level.

Credit risk

The Group strives to enter into transactions exclusively with reputable companies with good creditworthiness. All clients wishing to use merchant loans are subject to pre-verification procedures consisting in an internal business interview, which includes the analysis of, among others:

- contractor's registration documents (legal form, citizenship of representing persons, entries concerning enforcement proceedings),
- entries in the national debtors' registers
- timely compliance with the commitments towards LSI Software S.A. in the ongoing cooperation with the Client.

In addition, due to ongoing monitoring of receivables, the exposure of the Group to the risk of bad debts is limited. With regard to other financial assets of the Group, such as cash and cash equivalents, available-for-sale financial assets and certain derivatives, the Issuer's credit risk arises as a result of the inability of the other party to repay the amounts due while the maximum exposure to that risk is disclosed in Note 45. There are no significant concentrations of credit risk in the Company.

Overdue trade receivables

	Total	Not overdue receivables	Overdue (in days)			
			< 90 days	91 –180 days	181 – 360 days	>360 days
31.12.2018						
Trade and other receivables	11 078	2 935	1 910	187	375	2 924
Impairment loss	1 960	0	0	0	0	1 960
Other receivables	1 125	1 125	0	0	0	0
Impairment loss	0	0	0	0	0	0
Loans granted	235	235	0	0	0	0
Impairment loss	0	0	0	0	0	0
Cash and cash equivalents	6 725	6 725	0	0	0	0
Impairment loss	0	0	0	0	0	0
Derivatives	0	0	0	0	0	0
Impairment loss	0	0	0	0	0	0
Other financial assets	0	0	0	0	0	0
31.12.2017						
Trade and other receivables	10 225	2 082	4 829	256	342	2 716
Impairment loss	1 941	0	0	0	0	1 941
Other receivables	1 208	1 208	0	0	0	0
Impairment loss	0	0	0	0	0	0
Loans granted	253	253	0	0	0	0
Impairment loss	0	0	0	0	0	0
Cash and cash equivalents	3 595	3 595	0	0	0	0
Impairment loss	0	0	0	0	0	0
Derivatives	0	0	0	0	0	0
Impairment loss	0	0	0	0	0	0
Other financial assets	0	0	0	0	0	0

Risk associated with liquidity

The Group's companies monitor the risk of a shortage of funds using a recurring liquidity planning tool. This tool takes into account the maturities of both investments and financial assets (eg. accounts receivables, other financial assets) and projected cash flows from operating activities. The Group's objective is to maintain a balance between continuity and flexibility of financing through the use of various sources of financing, such as overdrafts, bank loans, financial lease agreements and hire-purchase agreements.

The table below shows the Company's financial liabilities as at 31 December 2018 and as at 31 December 2017 by maturity based on contractual undiscounted payments. The following table also presents the carrying value of the Company's financial instruments exposed to the interest rate risk, broken down by age categories. Interest rates on floating-rate financial instruments are updated in periods of less than one year. Interest on fixed-rate financial instruments is fixed throughout the period until the maturity date of these instruments. Other financial instruments of the Company that are not included in the above tables do not bear interest and therefore are not subject to interest rate risk.

	At the request	Over 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
31 December 2018	0	7 951	763	1 583	0
Interest-bearing loans	0	116	352	1 080	0
Lease agreements	0	137	411	503	0
Trade and other liabilities	0	7 698	0	0	0
- from associates	0	0	0	0	0
Derivatives	0	0	0	0	0
31.12.2017	0	6 276	1 243	1 601	0
Interest-bearing loans	0	87	1 088	1 079	0
Lease agreements	0	52	155	522	0
Trade and other liabilities	0	6 137	0	0	0
- from associates	0	0	0	0	0
Derivatives	0	0	0	0	0

Note 46. INFORMATION ON FINANCIAL INSTRUMENTS

The fair value of certain classes of financial instruments

The table below compares the balance sheet values and fair values of all of the Company's financial instruments, broken down by class and category of assets and liabilities.

FINANCIAL ASSETS	Carrying amount		Fair value		Maximum exposure to credit risk *	Category of financial instrument
	31.12.2018	31.12.2017	31.12.2018	31.12.2017		
Financial assets available for sale (long-term), including:	0	0	0	0	0	
- bonds	0	0	0	0	0	
Other financial assets (long-term), including:	0	0	0	0	0	
- loans granted	0	0	0	0	0	Loans
Trade and other receivables	10 322	9 895	10 322	9 895	1 032	Receivables
Financial assets available for sale (short-term), including:	0	0	0	0	0	
Financial assets at fair value through profit or loss, including:	0	0	0	0	0	
- Derivative financial instruments	0	0	0	0	0	
Derivatives used in hedge accounting:	0	0	0	0	0	
Other financial assets (short-term), including:	235	253	235	253	12	
- loans granted	235	253	235	253	12	Loans
Cash and cash equivalents, including:	6 725	3 595	6 725	3 595	0	
- cash	6 725	3 595	6 725	3 595	0	Cash

FINANCIAL LIABILITIES	Carrying amount		Fair value		Category of financial instrument
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	
Interest-bearing credits and loans, including:	1 548	2 254	1 548	2 254	
- long-term, at floating interest rate	1 080	1 079	1 080	1 079	Credit facility
- long-term, at fixed interest rate	0	0			
- overdraft facility	0	825	0	825	Credit facility
- other – short-term	468	350	468	350	Credit facility
Other liabilities (long-term), including:	1 051	729	1 051	729	
- arising on financial lease agreements hire-purchase agreements	1 051	729	1 051	729	Lease
Trade and other liabilities	7 808	6 440	7 808	6 440	Other liabilities
Financial liabilities, including:	6	9	6	9	
- other financial liabilities at fair value through profit or loss	6	9	6	9	Forward contract

Group's companies have no liability items that would be recognized at fair value and therefore it is not necessary to disclose the assumptions for its determination. In the period ended 31.12.2018 there were no transfers between Levels 1 and 2 of the fair value hierarchy and their detailed description is included in note 12.

Hedges

The Group does not apply hedge accounting except for foreign exchange forward for USD. Detailed parameters of contracts concluded as at 31 December 2018 are presented in note 22.

Cash flow hedges

As at 31 December 2018, the Company held the following hedging contracts:

	Maturity	Exchange rate
Sale		
Purchase		
USD forward exchange contract	11.01.2019	3,8117
USD forward exchange contract	14.02.2019	3,7704

As at 31 December 2017, the Company held the following hedging contracts:

	Maturity	Exchange rate
Sale		
Purchase		
USD forward exchange contract	16.01.2018	3,6098

The fair value of the above contracts was as follows:

	31.12.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Currency forward	848	854	266	275
Fair value		6		9

Note 47. CAPITAL MANAGEMENT

The main objective of the Company's capital management is to maintain a strong credit rating and secure capital ratios in order to support the Group's operations and increase its value for shareholders. The Company manages the capital structure and introduces the relevant changes as a result of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may change the dividend payment to shareholders, return capital to shareholders or issue new shares. In the year ended 31 December 2018 and 31 December 2017, no changes were introduced to the objectives, principles and processes in force in this area. The Group monitors the balance of capital using the leverage ratio, which is calculated as the ratio of net debt to total equity plus net debt. In accordance with the Company's policies, this ratio shall be between 20% and 35%. Net debt includes interest-bearing loans and borrowings, trade and other liabilities, less cash and cash equivalents. Equity includes convertible preference shares and equity attributable to shareholders of the Dominant Entity less reserve capital from unrealized net gains.

In 2017 and 2018, the above ratio remains below the expected range due to the fact that the Group did not use the available overdraft facilities in the amount of PLN 1,675 thousand in 2017 and PLN 2,000 thousand in 2018.

	31.12.2018	31.12.2017
Interest-bearing loans	1 548	2 254
Trade and other liabilities excluding income tax liabilities	7 698	6 137
Less cash and cash equivalents	6 725	3 595
Net debt	2 521	4 796
Convertible preference shares	0	0
Equity	32 856	32 101
Reserve capital from unrealized net gains	0	0
Total equity	32 856	32 101
Net equity and net debt	35 377	36 897
Leverage ratio	7%	13%

Note 48. EMPLOYEE BENEFIT PLANS

The Group does not operate an employee share scheme.

Note 49. INFORMATION ON ASSOCIATES

The following table shows the total amounts of transactions with associates for the current and previous financial year.

Associate	Sale to associates		Purchases from associates		Receivables from associates		including overdue		Liabilities towards associates		including overdue	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Dominant Entity												
LSI Software S.A.	1 302	301	1 077	5 393	230	205	146	23	599	1 536	383	368
Subsidiary undertakings												
Softech Sp. z o.o.												
LSI Software s.r.o.	100	292	84	82					230	141	146	87
GiP Sp. z o.o.	551	16	1 266	210	560		383	433	9	63		
Positive Software LLC	6		6			348						
Management Boards of Group's companies												
LSI Software S.A.												
Bartłomiej Grduszak	156	156	4	4	16	16						
Michał Czwojdziański	264	280			23	23				1		1
Henryk Nester				4								
Grzegorz Strąk	62		4	2	9							
GiP Sp. z o.o.												
Maciej Guzowski*		1 550				383						
Leszek Guzowski*		1 550				383						
Marek Pawlak*		1 550				383						

*Agreement for sale of shares in GiP Sp. z o.o. to LSI Software S.A.

Group's Dominant Entity

LSI Software S.A.

Entity with significant influence over the Group

As at 31 December 2018 - SG Invest Sp. z o.o./ Grzegorz Siewiera holds 30,67% of ordinary shares in LSI Software S.A. (31 December 2017: 30,67%).

Affiliated undertaking

As at 31 December 2018, the Group has no affiliated undertakings.

Joint ventures in which the Company is a partner:

As at 31 December 2018 there were no joint ventures in the Group.

Terms of transactions with associates

The Issuer enters into purchase/sale transactions with all associates. Transactions are executed on market terms used for transactions with other entities.

Loan granted to a Member of the Management Board

In 2018, no loan agreements were contracted with members of the Management Board.

On 26 February 2016, LSI Software S.A. granted a loan at the amount of PLN 240 thousand to Mr. Grzegorz Siewiera – Chairman of the Supervisory Board of the Company. The repayment date was determined for 28 February 2018. This loan is a short-term financial asset.

Other transactions with members of the Management Board

During the financial year ended on 31 December 2018, the purchase transactions between the Group and members of the Management Board of the Group were concluded in the total amount of PLN 482 thousand (in the financial year ended 31 December 2017 the value of these transactions amounted to PLN 436 thousand). The subject transactions concerned the provision of managerial services.

Note 50. REMUNERATION OF KEY MANAGEMENT PERSONNEL AND SUPERVISORY BOARD

Remuneration paid or due to members of the Management Board and members of the Supervisory Boards of Group's companies

Benefits paid to members of the Management and Supervisory Boards

	01.01 -31.12.2018	01.01 -31.12.2017
Short-term employee benefits (remunerations and surcharges)	549	642
Other long-term benefits	0	0
Short-term employee benefits (remunerations and surcharges)	549	642

	Position	01.01 -31.12.2018	01.01 -31.12.2017
Remuneration of Members of the Management Board			
Bartłomiej Grduszak	President of the MB	75	0
Michał Czwojdziański	Member of the MB	82	0
Henryk Nester	Member of the MB	10	143
Grzegorz Strąk	Member of the MB	244	167
Michał Czwojdziański	President of the MB	0	28
Bartłomiej Grduszak	Vice-President of the MB	0	0
Maciej Guzowski	President of the MB	0	59
Leszek Guzowski	Member of the MB	110	113
Marek Pawlak	Member of the MB	0	84
TOTAL		521	594
Remuneration of Members of the Supervisory Board			
Piotr Kardach	Member	0	5
Maciej Węgierski	Member	3	0
Piotr Kraska	Member	6	0
Andrzej Kurkowski	Member	6	6
Grzegorz Kwiatkowski	Member	2	5
Krzysztof Wolski	Vice-Chairman	9	9
Grzegorz Siewiera	Chairman	16	14
TOTAL		42	39

Note 51. EMPLOYMENT

Average employment

	01.01 -31.12.2018	01.01 -31.12.2017
Management Board	1	5
Administration	9	12
Sales Department	37	50
Production Division	43	45
Other	57	66
TOTAL	147	178

Employment turnover

	01.01 -31.12.2018	01.01 -31.12.2017
The number of recruits	30	52
Number of redundant employees	61	63
TOTAL	-31	-11

Note 52. OPERATING LEASE AGREEMENTS

The Group's companies conclude operating lease agreements with mLeasing Sp.z o.o. to finance the purchase of means of transport. The agreements are concluded usually for a period of 35 months and include the initial fee of 20% of the value of the leased asset and the residual value of repurchase - 1%. Contracts are based on the WIBOR1M base rate. All operating lease agreements concluded are disclosed in the books of the Company as finance lease.

Note 53. CAPITALIZED BORROWING COSTS

In the period covered by the financial statement, the Company did not capitalize any interest related to external debt

Note 54. REVENUES RECEIVED SEASONALLY, CYCLICALLY OR OCCASSIONALLY

The operations of the Group are not characterized by seasonality or cyclicity.

Note 55. COURT PROCEEDINGS

No proceedings are pending, the value of which amounts to at least 10% of the Issuer's equity.

Nota 56. TAX SETTLEMENTS

Tax settlements and other regulated areas (e.g. customs and exchange issues) may be subject to scrutiny by the administrative authorities who are entitled to impose high penalties and sanctions. The lack of reference to established legal regulations in Poland results in a lack of clarity and inconsistency. Frequent differences in opinions as to the legal interpretation of tax laws, both within government bodies and between state authorities and businesses, create uncertainties and conflicts. Such situation result in the fact that tax risk in Poland is significantly higher than this typically found in countries with more developed tax systems. Tax settlements may be subject to inspection for a period of five years as from the end of the year in which the tax was paid. As a result of control performed, the Group's tax settlements may be increased by additional tax liabilities. According to the Group, as at 31 December 2018, adequate provisions were created for recognized and quantifiable tax risks.

Note 57. WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT

On 21 October 2005, most of the provisions of the Act on Waste Electrical and Electronic Equipment ("WEEE") came into force. It imposes on entities placing electronic and electrical equipment (manufacturers and importers) on the market, among others the obligation to organize and finance the collection of spent equipment, processing, recovery, recycling and disposal of waste equipment from operators. Entities placing the household appliances are required to ensure the collection of waste equipment from households. In order to estimate the provision, the following data shall be available for the Group: the number of kilograms of historical WEEE to be collected by the Group and the remaining number of kilograms of new WEEE to be collected by the Company. In the reports required by the Ministry of Environmental Protection there is no distinction between new and historical WEEE. Taking into account organization of the collection and WEEE collection reporting system, the Company is unable to estimate the amount of WEEE to be collected by the Company in order to comply with the obligations under the Act on Waste Electrical and Electronic Equipment. Consequently, the Company did not establish any provisions for liabilities relating to historical WEEE, nor the new WEEE. The Company does not exclude the possibility of verifying its position in these terms, in the case of issuance of other binding interpretations of the Act, or when the practice of applying the Act will indicate a different accounting approach to the obligation associated with WEEE.

Note 58. EVENTS AFTER BALANCE SHEET DATE

No significant events occurred after the balance sheet date.

Nota 59. PARTICIPATION OF SUBSIDIARIES NOT COVERED BY THE CONSOLIDATED FINANCIAL STATEMENT

As at 31 December 2018 and 31 December 2017, the Company did not include BluePocket S.A. in the consolidated financial statement due to resignation on 10 March 2015 of a former president of the Management Board of BluePocket S.A. and failure to appoint a new Management Board of this company. Until the day of preparation of the report hereof, the Issuer did not receive financial statements of BluePocket S.A. for the years 2014-2018.

Note 60. INFORMATION ON TRANSACTIONS WITH AN ENTITY PERFORMING AN AUDIT OF THE FINANCIAL STATEMENT

Remuneration paid or due for the financial year	01.01 -31.12.2018	01.01 -31.12.2017
- the audit of the annual financial statements and consolidated financial statements	48	37
- other assurance services, including the review of the financial statements and consolidated financial statements	34	10
- tax advisory services	0	0
- other services	0	12
TOTAL	82	59

Note 61. EXPLANATIONS TO THE CASH FLOW STATEMENT

	01.01 -31.12.2018	01.01 -31.12.2017
Cash recognized in the balance sheet	6 725	3 595
Foreign exchange differences on balance sheet valuation	-2	-75
Cash assets classified as cash equivalents for purposes of the cash flow statement	0	0
Total cash and cash equivalents recognized in the cash flow statement	6 802	3 671

	01.01 -31.12.2018	01.01 -31.12.2017
Amortisation:	3 703	3 370
amortisation of intangible assets	2 965	2 675
amortisation of fixed tangible assets	738	695
amortisation of investment property		
Interest and share in profits (dividends) consists of:	97	96
interest paid on loans contracted	59	
interest paid on lease agreements	45	96
Interest received		
Interest on debt securities		
Interest paid on long-term receivables		
Dividends received		
Interest accrued on loans contracted	-7	
Interest accrued on bank loans		

Profit (loss) on investing activities results from:	-73	-38
Revenues from the sale of intangible assets		
Net value of intangible assets sold		
Revenues from the sale of tangible fixed assets	-140	-82
Net value of sold tangible fixed assets	67	18
net value of liquidated fixed assets		26
Revaluation of fixed assets		
Revaluation of short-term financial assets		
The change in provisions results from the following items:	-40	-40
Balance sheet change in provisions for liabilities	-49	-41
Balance sheet change in provisions for employee benefits	9	1
Value of reserves acquired as a result of acquisition of control (reserves of a subsidiary at the date of acquisition of control with "-" mark)		
Value of reserves excluded as a result of loss of control (reserves of a subsidiary at the date of acquisition of control with "+" mark)		
Change in inventory results from the following items:	-78	-51
Balance sheet change in inventory	-78	-296
Value of inventory acquired as a result of acquisition of control (inventory of a subsidiary at the date of acquisition of control with "-" mark)		245
Value of inventory excluded as a result of loss of control (inventory of a subsidiary at the date of acquisition of control with "+" mark)		
Change in receivables results from the following items:	819	-319
Change in short-term receivables arising from the balance sheet	819	-667
Change in long-term receivables arising from the balance sheet		
Correction by additional allocations to equity capital		348
Correction by a change in the balance of receivables from the disposal of fixed tangible assets		
Correction by a change in the balance of receivables due to disposal of non-financial investment		
Correction by a change in the balance of receivables due to disposal of financial investment		
Receivables acquired as a result of acquisition of control (receivables of a subsidiary at the date of acquisition of control with "-" mark)		
Receivables excluded as a result of loss of control (receivables of a subsidiary at the date of acquisition of control with "+" mark)		
Change in short-term liabilities, except for financial liabilities, results from the following items:	379	-1 432

Change in short-term liabilities resulting from balance sheet	-1 119	1 930
Correction by repaid credit		-1 259
Correction on account of offsetting subsidies and liabilities		
correction by a change in liabilities due to unpaid dividend		
correction by change in the balance of liabilities due to acquisition of tangible fixed assets		
correction by a change in liabilities due to acquisition of financial assets	1 498	-1 305
Operating liabilities acquired as a result of acquisition of control (operating liabilities of a subsidiary at the date of acquisition of control with "-" mark)		-798
Operating liabilities excluded as a result of loss of control (operating liabilities of a subsidiary at the date of acquisition of control with "+" mark)		
The value of the item "Other corrections" include:	-707	1 278
cash and cash equivalents acquired as a result of obtaining control		1 278
amortised loans and borrowings		
subsidies received	-707	

Łódź, 29 April 2019

Signatures of Members of the

Management Board

Bartłomiej Grduszak

*President of the
Management Board*

Michał Czwojdzński

*Vice-President of the
Management Board*

Grzegorz Strąk

*Member of the
Management Board*

Signature of a person preparing the financial statement:

Bartłomiej Grduszak

*President of the
Management Board*

Dariusz Górski

Chief Accountant

F. Report of the Management Board on business activities of the Company and the Group in 2018

The report of the Management Board of LSI Software S.A. on business activities of the Company and LSI Software Group in the financial year 2018 has been prepared in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and interim information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757) and the Accounting Act of 29 September 1994 (Journal of Laws of 2019, item 351, as amended).

The report of the Management Board of LSI Software S.A. on business activities of the Company and report of the Management Board of LSI Software S.A. on business activities of LSI Software Group in the financial year 2018 have been prepared as one document in accordance with Par. 71.8 of Regulation of the Minister of Finance of 29 March 2018 on current and interim information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757) read with art. 55.2a, last sentence of the Accounting Act of 29 September 1994.

I. BASIC INFORMATION

LSI SOFTWARE GROUP / LSI SOFTWARE JOINT STOCK COMPANY
with its registered office in
Łódź (93-120)
Przybyszewskiego 176/178 St

LSI Software S.A. with its registered office in Łódź at 176/178 St. was registered with the National Court Register kept by the District Court for the City of Łódź (20th Commercial Department of the National Court Register) under the following number: KRS 0000059150.

The main scope of the Company's business includes:

- Computer programming activities 62.01 Z

LSISOFT / LSI / PLLSSFT00016
IT
Main Market 5 MINUS

The Group has a perpetual existence.

The financial statement of LSI Software Group and LSI Software S.A. has been prepared for the period of 1 January 2018 – 31 December 2018. The comparable period: 1 January 2017 – 31 December 2017.

II. Description of the Group's business activities

LSI Software Group is a leading Polish producer of software for the retail and hospitality sectors. The Group is a developer of its own ERP class system (Enterprise Resource Planning) and software for operation of recreational and sports facilities. The Group also offers consulting, implementation, maintenance services and supply of specialized hardware solutions. The Issuer's great asset is its over 25 years of experience in the market. The mission of LSI Software Group is to provide modern IT solutions supporting companies' operations and enabling them to be managed effectively and comprehensively. LSI Software is a long-term partner of global companies such as Microsoft or Posiflex. This translates into an access to the latest technologies and specialized equipment used worldwide.

1. Information on basic products, services and the markets

The main scope of the Group's business activities has not changed and is focused on the production, sale and implementation of proprietary software and the sale of complementary sales-supporting devices.

TARGET INDUSTRIES:

- **Retail** - solutions in this group of clients include all the processes occurring in the traditional commercial enterprise. Starting from ordering goods, through warehouse management at the headquarters level, logistics services for stocking own stores, complaints, sales registration in points of sale ending with data analysis in the headquarters. The system provides support for such company functions as: accounting, finance, human resources, payroll, marketing, loyalty programs, automation of business processes (including marketing) and Omni-Channel support.
- **Hospitality** – products in this group are intended for the hospitality market. Mentioned products support not only the catering activities but also the restaurant (restaurants chain) or hotel management as well as the organization of conferences. The offer also includes complete systems for managing SPA and fitness centers as well as applications for the staff of such facilities.
- **Recreation and sport facilities** - solutions in this group are intended for different-size recreation and sport facilities i.e. swimming pools, water parks, sport and entertainment centers, stadiums, exhibition halls. The system integrates software and technical infrastructure ensuring a comprehensive customer service.
- **Cinemas** - products for cinema networks management and operation of off-line and on-line sale in network's individual facilities.
- **Small and medium-sized companies of different business lines** – ERP and project management products.
- **Beauty** – solutions for beauty salons, hairdressers and SPA centres.
- **Healthcare** - communication supporting devices.
- **Logistics** – communication supporting devices.

PRODUCT LINES IN GROUP'S OFFER:

LSI Software S.A.:

- **POSitive® Cinema** – system for sales and customer service in cinemas and for cinema networks management
- **POSitive® Hospitality** - system for sales and customer service in restaurants and for restaurant networks management (POSitive Restaurant brand) and integrated booking, sales and guest management systems in hotel facilities, and systems for the management of the network of such facilities (InteliHotel brand)
- **POSitive® ESOK** – electronic customer service, integrates innovative IT software and technical infrastructure, provides managers with full control of key areas of the facility's operations; integrated with POSitive Hospitality
- **POSitive® Retail** – sales systems and customer service systems for retail industry,
- **Bastion® ERP** – ERP- class systems for accounting, stock management, distribution and HR and payroll intended for SMEs
- **Jirasolutions** – platform for project management and information flow in the enterprise
- **Qiki** – application for restaurant's clients for online ordering before the scheduled visit - for client's and restaurant service's time saving
- **Szeryf24** – an application for supervising the sales processes and thus allowing detection of abuse by the staff, e.g. by linking the recordings from the cameras to the operations performed in the sales system
- **Roomio** – an easy-to-use mobile application for hotel facilities, designed for interactive and comprehensive service of hotel guests
- **Staff Helper** - mobile application for registration of personnel activities, work control and communication between hotel employees, designed to improve the operation of hotel administration and speed up the preparation of rooms for hotel guests
- **Staff Scheduler** - a mobile application for creating and managing staff time graphics

- **GASTRO** – system addressed to catering facilities intended for supporting the sales, customer service, warehouse management and cost analyses and control
- **mojeGASTRO** – digital cloud system addressed to catering facilities, intended for supporting online order picking from customers and remote ongoing control of the premises
- **CHART** – system for small and medium-sized hotel facilities intended for supporting the sales, customer service, and overall facility management
- **LMS (Loyalty Management System)** - system for managing loyalty programs and non-cash payments
- **POSIFLEX** – high quality devices for points of sale (POS touch-screen terminals, touch monitors, peripheral devices). LSI Software is the exclusive Posiflex distributor in Poland
- **LRS (Long Range Systems)** – LRS paging devices used in many industries - including in catering, hospitality, healthcare, logistics and trade. LSI Software is a general distributor of LRS in Poland
- **Bixelon** - high quality printers (stationary and portable) that are a perfect complement to the offered systems
- **Sunmi** - modern PDA devices designed for demanding usage conditions
- **Self-service kiosk** - a device enabling the self-service of customers in all supplied industries, helps to speed up the service and minimizes customer waiting time
- **EKM (Electronic Check-in Card)** - a solution designed for hotels, facilitating check-in and enabling to meet the requirements of GDPR
- **Management dashboards** - a tool independent of the platform, dedicated to managers and allowing for ongoing analysis of key indicators (KPIs)

LSI Software s.r.o.:

- **GASTRO** – linguistically and fiscally adapted to the requirements of the Czech market system addressed to catering facilities intended for supporting the sales, customer service, warehouse management and cost analyses and control
- **POSIFLEX** – high quality devices for points of sale (POS touch-screen terminals, touch monitors, peripheral devices)
- **LRS (Long Range Systems)** – LRS paging devices used in many industries - including in catering, hospitality, healthcare, logistics and trade

GIP Sp. z o.o.:

- **Hotel Automation** - a system for intelligent hotel facility management. Increases the comfort and security of hotel guests while reducing the cost of the facility
- **RH2** – a system to support reception and booking, management and marketing in large hotels and their chains

Positive Software USA LLC

- **POSitive® Cinema** – system for sales and customer service in cinemas and for cinema networks management

BluePocket S.A.:

- **BLUE POCKET** - platform with a mobile smartphone application that allows running and managing many types of loyalty, marketing and promotional programs.

OTHER ELEMENTS OF GROUP'S OFFER

The Group is also involved in the production of dedicated software which is developed on special request of customers on the basis of the analysis of needs and technological capabilities and financial resources of the recipient. Customised products can be delivered in three areas:

- Modifications to the existing software developed by the Company,
- Adjusting the software of other developers,
- production of completely new, dedicated software, created on the basis of in-depth analysis of the processes for which the IT system is to be developed.

Apart from the software development, the Group provides the services associated with:

- implementation, sales and maintenance of own software;
- consultancy in the field of the flow of information and optimization of business processes in the pre-analysis phase;
- maintenance of network infrastructure.

Information on sales revenues and its structure is presented in Note 1 and Note 2 to the Separate and Consolidated Financial Statements for the year 2018.

2. Information on markets and supply sources

In 2018 the majority of the Group's revenue was associated with the sales on a domestic market. Commercial activities abroad are carried out both directly by the Group (with particular consideration of POSitive Software USA LLC and LSI Software s.r.o.) and by local partner companies. Activities outside Poland are focused mainly on the EMEA region and both Americas. Detailed data on the geographical structure of sales are presented in Note 2 to the Annual Separate and Consolidated Financial Statements. The sales of the Group are of dispersed nature. In the sales structure, with reference to the value of turnover, there is no significant recipient of the Group's services and solutions whose share in the sales revenues reached 10%. A diversified portfolio of customers enables the Group to remain independent from single buyers. Among the Group's clients, the largest group of recipients are enterprises from the SME market (small and medium enterprises). The situation is similar as regards the sources of supply, which are generally dispersed, except for supplies carried out for the Group by POSIFLEX TECHNOLOGY INC. The share of purchases of goods from this supplier in the unit value of sales revenues in 2018 amounted to nearly 25%. At the same time, the Management Board of the Company indicates that there are no formal links between the Issuer and POSIFLEX TECHNOLOGY INC.

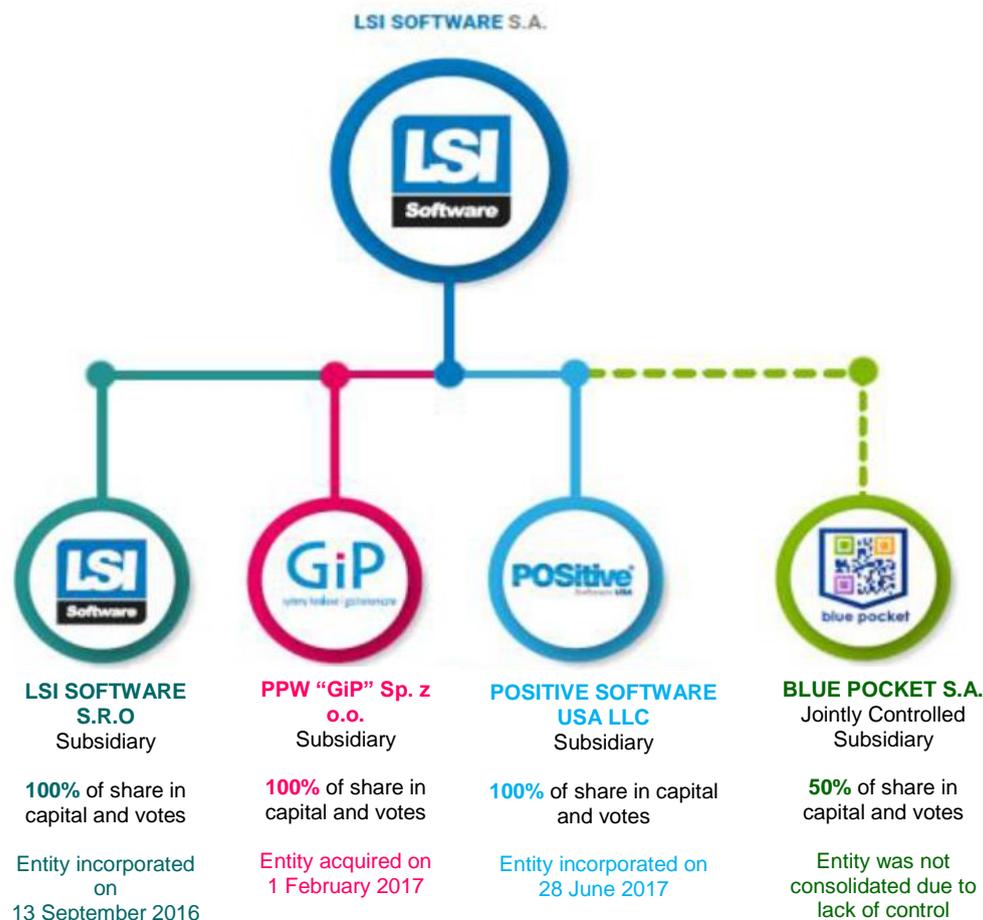
3. Organisational and capital links between the Group and other entities with indication of its main domestic and foreign investments, including capital investments made outside its group of associates, with description of methods of their financing

As at 31 December 2018, LSI Software Group is composed of the following entities:

- LSI Software S.A. as a dominant entity,
- LSI Software s.r.o. in which LSI Software S.A. holds 100% of the participating interests - subsidiary undertaking incorporated with LSI Software own funds on 13 September 2016,
- GiP Sp. z o.o. in which LSI Software S.A. holds 100% of the participating interests – subsidiary undertaking acquired on 1 February 2017; investment financed with LSI Software own funds (50%) and with a long-term investment loan (50%),
- Positive Software USA LLC in which LSI Software S.A. holds 100% of the participating interests - subsidiary undertaking incorporated with LSI Software own funds on 28 June 2017,
- BluePocket S.A. in which LSI Software S.A. holds 50% of shares – jointly controlled subsidiary undertaking (incorporation financed with LSI Software own funds).

Due to resignation on 10 March 2015 of former president of the Management Board of BluePocket S.A. and failure to appoint a new Management Board of this company, by the day of preparation of the report hereof, the Issuer did not receive financial statements of BluePocket S.A. for the years 2014-2017. At the same time, due to the fact that the meetings of the Supervisory Board are not attended by members appointed by Bastion Venture Fund sp. z o.o. S.K.A. as a Shareholder, LSI Software S.A. is not able to independently appoint the Management Board of BluePocket S.A. which results in the actual lack of the Issuer's ability to govern financial and operating policies of this entity. Due to the above, the Management Board of LSI Software S.A. adopted for consolidation under the equity method, the last financial result approved by the Management Board of BluePocket S.A., that is financial result for the period of 1 January – 30 September 2014. In 2018 BluePocket SA was not consolidated and will not be consolidated until LSI Software SA regains the ability to manage the financial and operating policy of that entity.

The Group's companies do not have any branches. Below is a graphical presentation of the Group.



4. Information on significant transactions concluded by Group's companies with associates on other than arm's lengths basis

In 2018, the companies being part of LSI Software Group did not conclude any transactions with their related companies that would not comply with market or standard agreements concluded on arm's length terms.

5. Description of changes in the organisation and principles of management of the Company and the Group

In the financial year 2018 there were no changes in the basic principles of management of the Company and its subsidiaries. Pursuant to the decision of the District Court for Łódź - Śródmieście in Łódź, 20th Commercial Division of the National Court Register issued on 13 April 2018, the merger of LSI Software S.A. (the Acquiring Company) with Softech sp. o.o. (the Company Being Acquired) was registered. The above date is the day of merger within the meaning of Art. 493.2 of the Commercial Companies Code (hereinafter "CCC"). In view of the above, pursuant to Art. 494.1 of the CCC on the day of merger LSI Software S.A. became a legal successor and entered into all the rights and obligations of Softech Sp. z o.o. The Participating Companies merged in order to optimize and simplify the ownership structure and with the aim of reducing operating costs of separate structures in the Participating Companies and achieving additional revenues from synergy effects in the future. The merger plan had been prepared on the basis of Art. 499 of the Commercial Companies Code (hereinafter referred to as the CCC) while its full content is available at: www.softech.eu. The merger was effected in a manner stipulated in Art. 492.1.1 of the CCC with consideration of simplification of the procedure as referred to in Art. 516 of the CCC and restrictions stemming from the fact that the Acquiring Company is a public company which results in the following:

- i. the Company being acquired was dissolved without liquidation process; and
- ii. all the assets and liabilities of the Company being acquired were transferred to Acquiring company under general succession; and
- iii. the Acquiring company entered into all the rights and obligations of the Company being acquired.

In accounting terms, the merger was settled as a merger under common control in accordance with Article 44c of the Accounting Act (pooling of interests method). The share capital and part of the supplementary capital of Softech Sp. z o.o. with its interests in subsidiary companies in LSI Software S.A. were excluded. Mutual settlements, turnover and results were also excluded. Comparative data for the previous financial years has been presented as if the merger had taken place at the beginning of the previous financial year. Therefore, this data was restated.

6. Information on loans and borrowings contracted and terminated in 2018

On 31 January 2018, LSI Software S.A. concluded with mBank S.A. an investment loan agreement for the total amount of PLN 575 thousand to be used to finance 50% of the second instalment payable for the purchase of shares in GiP Sp. z o.o. The loan bears interest at a variable rate and corresponds to WIBOR 1M plus the bank's margin. The repayment date of the last instalment of the loan expires on 31 January 2023. Furthermore, the overdrafts of LSI Software S.A. in the amount of PLN 1,500 thousand and GiP Sp. z o.o. in the amount of PLN 500 thousand were renewed for further annual periods. A detailed list of borrowings is presented in Note 34 to the Annual Separate and Consolidated Financial Statements. In 2018 no loan agreements were terminated within the Group.

7. Information on sureties and guarantees granted and received in 2018

The Issuer again granted a surety of up to PLN 500 thousand for the renewed overdraft facility agreement concluded on 9 August 2017 by the subsidiary GiP Sp. z o.o. with mBank S.A.

Furthermore, LSI Software S.A. granted guarantees to the following entities from outside the Group:

1. POSIFLEX TECHNOLOGY INC - in the amount of USD 450 thousand with the expiration date until 31 December 2019
2. AmRest Sp. z o.o. - in the amount of PLN 111 thousand due to liabilities resulting from the concluded lease agreement
3. CaixaBank S.A. - in the amount of EUR 57 thousand with an indefinite validity date.

The total value of guarantees and sureties granted by the Company as at 31 December 2018 amounts to PLN 2,548 thousand. In turn, GiP Sp. z o.o. granted a performance bond to PRO-BUD S.A. in the amount of PLN 17 thousand with the validity date until 30 June 2020.

8. Loans granted in the financial year 2018, with particular consideration of loans granted to associated undertakings of the Company

In 2018, no loans were granted, including loans to associated undertakings.

9. Agreements concluded which are known to the Group and are significant for the operations of the Group, including agreements concluded between shareholders (partners), insurance agreements, cooperation agreements

In the opinion of the Management Board, at present there are no significant agreements for the Group's operations, including agreements between shareholders.

10. Description of significant risk factors and threats

The factors described below concern both the Company and the Group, unless stated otherwise.

Factors related to the Group's operations

- **Risk associated with the introduction of new products of the Group and the development of existing ones**

The dynamic development of information technology and methods of data transmission and processing enforces the need to keep up with new technologies. IT companies are forced to constantly renew offered products and services and to develop new technology solutions. There is a risk associated with the difficulties in keeping up with the market development in this area, as well as it is uncertain whether the introduction of a new product that is currently being developed or will be developed by the Group, would be positively welcomed by potential customers. In order to minimize mentioned risk, the Group continuously analyzes the trends in the IT services market, effectively responds to market's demand for new solutions as well as effectively adjusts the catalogue of offered products and methods for their use to customers' expectations. The Group systematically establishes and maintains business relationships with suppliers and customers and ensures a high technological level of its own products and associated services.

- **Risk associated with the changes of the growth-rate of ERP software market**

In the last year, the ERP software market in Poland as compared to the growth rate of gross domestic product, maintained an upward trend. In accordance with publications and industry analysis presenting growth forecasts for this area of services, further intensification of this market should be assumed. However, for the assessment of aforementioned assumptions, the potential economic fluctuations (which, as a consequence, may be significant for the potential clients of the Group while making investment decisions regarding the use of IT solutions offered by the Company) shall also be of considerable importance. In order to reduce this risk, the Group develops its operations by diversifying its own clients. The Group addresses its offer to companies operating in various business sectors. The distribution of the offer among several market areas effectively reduces the dependence on clients thereby reducing this risk.

- **Risk associated with the change in criteria in terms of the technology provided by technology partners**

The development of the Group's activities depends to a large extent on access to modern Information Technology solutions. Currently, the main partner in this regard is Microsoft - the largest software producer in the world. Microsoft, under the partnership agreement, cooperates with the Group in the field of implementation of the system environment and databases. It cannot be excluded that in future the status of the partnership may change, particularly with regard to a possible increase of cost associated with an access to technology, which in turn could result in the need to change the pricing policy for customers. All these facts would for sure partially reduce the competitiveness in the IT services market.

- **Risk associated with the loss of key employees**

The Group's operations and its development prospects depend largely on the knowledge and experience of highly qualified personnel. It is typical for the companies operating in IT sector. The dynamic development of IT companies in Poland and in the European Union may contribute to the growth in the demand for highly qualified and experienced staff. The main method for obtaining employees is to offer them competitive salary and working conditions. There is a risk that the loss of key employees could result in delays in the implementation of works. Any increase in costs of employment may have a negative impact on the Group's financial results and development opportunities. The Group establishes optimal incentive schemes which build positive relationships with employees reduce the staff turnover and enable maintaining a stable base of qualified and highly experienced IT employees.

Factors associated with the environment in which the Group operates

- **Risk associated with the instability of legal system**

The Polish legislation and its interpretation are subject to frequent changes. Many of the existing legal provisions, particularly tax provisions, have not been formulated in a sufficiently precise manner so they lack a clear interpretation. Any changes in the law may have a negative impact on the Group's business activities and the environment in which the Group operates. Entry into force of new regulations which are significant for the economic relations may result in different problems associated with interpretation, inconsistent judicial decisions, disadvantageous interpretations adopted by public authorities, etc., which in turn can, directly or indirectly, translate into worse operating conditions for the Group.

- **Risk related to the macroeconomic and geopolitical situation of Poland and the world**

The activities of the Group and the pace of the development of its product offer are closely associated with the overall economic situation of the country. The financial result of the Company is undoubtedly affected by such factors as the level of GDP, the level of business investments, the level of inflation, the level of foreign exchange rates against zloty (PLN) and geopolitical situation in the region. Any slowdown in economic growth, the decline of investments, in particular in the field of modern technology as well as the inflation growth could have a negative impact on operations and financial position of the Company and its financial results. Due to the import, the low value of zloty (PLN) is also recognized by the Group as a threat. The macroeconomic situation and the results of the Group may also be affected by the geopolitical conditions prevailing in the region and in Poland. In order to reduce the potential negative effects of aforementioned factors, the Company diversifies its operating areas also throughout addressing its offer to foreign clients.

- **Risk of competition**

The rising competition from both Polish and foreign IT companies shall significantly affect the business operations of the Group. The consolidation of companies in the market shall also constitute a serious threat. Furthermore, the growing number of institutions benefiting from its own experts in the field of IT solutions may affect the Group's competitiveness to other entities which in turn may have a negative impact on the business activities and financial result. Therefore, it cannot be excluded that the growing competitive pressure will not affect the level of profitability of the Group's business.

- **Risk of industry consolidation**

Consolidation processes in the IT industry lead to strengthening the largest entities in the market which enables them an access to new customers. The strongest companies seek to take over weaker companies operating in niche segments of the IT market. The Group, aiming to strengthen its position in the market, also plans the acquisition of companies in certain market segments.

- **Financial risk**

The purpose of the Group's financial risk management is to reduce to an acceptable level the volatility of cash flows and financial performance generated on the core business of the Group. The main financial instruments used by the Issuer are:

- cash,
- short-term deposits,
- foreign exchange and forward transactions,
- loans granted,
- overdrafts and long-term credits,
- lease agreements.

The main purpose of these instruments is to ensure the financial security and stability of current business operations of the Issuer through stabilizing and minimizing the liquidity risks, foreign currency and interest rates risks, as well as the efficient allocation of available financial resources.

Currency risk management strategy applied by the Issuer assumes the maximum use of natural hedging. The Company strives to maximize structural matching of revenues and expenses in the same currency as the executed contracts. Net exposure to currency risk which is not hedged in a natural manner, shall be hedged at the time of the transaction up to a maximum of 100% of the estimated value of net exposure, exclusively with the use of approved types of derivatives, i.e. forward transactions.

11. External and internal factors significant to the development of the Company and the Group

Economic situation:

Poland's economic situation is still recognized as one of the most interesting in the region and promising in terms of positive GDP growth and continued favorable growth prospects.

Competition:

The company is one of the leaders in its industry, which thanks to consistent development policy and diversification will certainly allow competing successfully with other players in the market.

EU funds

The access of Polish companies to the resources from structural funds is one of the elements creating demand for solutions offered by the Group.

Labour market

Growing pressure to increase wages in the IT industry and growing competition in the local labor market.

Internal factors

Organization of the Group

The composition of LSI Group allows to continue business operations through intensified internal development of the existing entities.

Sales growth

A steady growth in sales for several years, confirming a properly implemented development strategy.

Working conditions

Attractive training policy and working conditions offered to employees of Group's companies.

Investment expenditures

High level of investment expenditures allocated for R&D as well as development of new IT products and services.

12. Description of the policy in terms of the development of the Company and the Group

The strategic development directions of LSI Software Group are:

- development of foreign sales, with particular emphasis on the markets of both Americas, Europe and Asia,
- development of IT products and services for the cinema industry,
- diversifying the offer by selling products and services to clients from different sectors and industries,
- constant development of own, technologically advanced IT solutions,
- development of sales of products and IT services in the service model (SaaS / cloud computing),
- high expenditure on R&D,
- permanent investment in human capital,
- development of a modern, own production base in Poland.

13. Efforts undertaken in the course of implementation of the Company's and the Group's development strategy in 2018

The value of the Capital Group is based on two pillars. The first one consists in organic development based on proprietary software and services, while the second one involves increasing the scale of operations through acquisitions and setting up new entities operating on selected markets outside Poland. In 2018, the main element in pursuing this strategy was further development of sales of POSitive® Cinema. As a result of these activities, the Company launched new implementation projects in cinema chains operating in Switzerland and Saudi Arabia. At present, the Company is also preparing to implement projects in cinema chains operating in the United States and Israel. The existing cooperation with cinema chains in Poland has also resulted in the conclusion on 11 July 2018 of an agreement for implementation and maintenance of LSI Software S.A. solutions in a group of restaurants operated by Foodio Concepts Sp. z o.o. (Helios Group).

Additionally, on 1 October 2018 LSI Software S.A. concluded an agreement for the implementation and maintenance of the Gastro system in the chain of restaurants operated by Sodexo Polska Sp. z o.o.

Further changes introduced in 2018 in the subsidiary - GiP Sp. z o.o. acquired on 1 February 2017 were an important element positively influencing the implementation of the development strategy. These processes were aimed at improving the efficiency of the company's operations and at implementing the planned synergy effects, which generated a positive contribution to the Group's performance. Acquisition of 100% of shares in the company so far competing with LSI Software S.A. company's solutions on the market allowed for consolidation of many areas of activity and extension of the Capital Group's existing product portfolio with further innovative solutions with high growth potential, especially with regard to Building Management Systems.

The Issuer's development directions will also be related to raising funds from the European Union Funds for the years 2014-2020. In 2018, Group's companies implemented EU projects with a total value of co-financing exceeding PLN 2,630 thousand. According to the Management Board, the EU funds should also increase the sales of the Group in connection with the increase in investment expenditures of entities from industries operated by the Issuer.

14. Major events with a significant impact on the operations and financial results of the Group in the financial year or which are likely to have an impact in the following years

Pursuant to the decision of the District Court for Łódź - Śródmieście in Łódź, 20th Commercial Division of the National Court Register issued on 13 April 2018, the merger of LSI Software S.A. (the Acquiring Company) with Softech sp. o.o. (the Company Being Acquired) was registered. The above date is the day of merger within the meaning of Art. 493.2 of the Commercial Companies Code (hereinafter "CCC"). In view of the above, pursuant to Art. 494.1 of the CCC on the day of merger LSI Software S.A. became a legal successor and entered into all the rights and obligations of Softech Sp. z o.o. The Participating Companies merged in order to optimize and simplify the ownership structure and with the aim of reducing operating costs of separate structures in the Participating Companies and achieving additional revenues from synergy effects in the future, which, in the opinion of the Management Board, will contribute to the improvement of the Group's financial results in 2018 and subsequent years.

III. Shares and share capital of LSI Software S.A.

The total number of shares in LSI Software S.A. amounts to 3,260,762. All the shares are ordinary bearer shares with the securities identifying code - PLLSSFT00016, except for registered, series B shares in the total number of 400 thousand, which are preferred as to voting rights so that each share carries 5 (five) votes at the Company's General Meeting. This gives a total of 2,000 thousand votes held by Grzegorz Siewiera. Shares of all series are equally preferred as to dividend and return on capital. All shares have a nominal value of PLN 1.00 each and compose the share capital in the amount of PLN 3,260,762.

1. Potential changes in the shareholder structure

In the reporting period, the Company and the Group did not conclude any agreements that could affect the future changes in the proportions of shares held by the existing shareholders.

2. Information on the control systems applicable to the employee share schemes

There are no employee share schemes in the Company and the Group.

3. Information on the buy-back of own shares

In accordance with Resolution No 7/2017 of the Ordinary General Meeting held on 30 June 2017, the Management Board of LSI Software S.A. closed the Share Buyback Program with effect from 31 December 2018. The Share Buyback Program ended due to the expiry of the time limit specified in the resolution. Pursuant to the Resolution of the General Meeting of Shareholders, the Issuer's Management Board was authorised to purchase 326,076 Issuer's shares for a price not lower than PLN 2 and not higher than PLN 19, and the total purchase price of these shares could not exceed the amount of PLN 2,060,000. This amount included the purchase price of the acquired shares and acquisition costs. LSI Software SA was entitled to acquire shares until 31 December 2018.

Below the information on the results of the Share Buyback Program commenced on 23 October 2017 is presented:

- the total number of shares acquired by the Company within the Share Buyback Program amounts to 50,485 and corresponds to 50,485 votes at the General Meeting of the Company;
- the total number of shares acquired so far accounts for 1.55% of the Company's share capital and the total number of votes at the Company's General Meeting;
- the nominal value of one share is PLN 1, and the total nominal value of the acquired shares amounts to PLN 50,485;
- the average unit acquisition price of the shares was PLN 11.99;
- PLN 1,452,559.86 remained from the special-purpose fund in the amount of PLN 2,060,000;
- the Company's own shares acquired by the Company may be used:
 - a) for redemption of shares and reduction of the Company's share capital
 - b) to offer shares to members of the Company's Management Board and key managers and employees of the Company (the "Incentive Scheme").

4. Information concerning the issue of securities

In 2018, no securities were issued by any of the Group's companies.

IV. Governing bodies

1. Composition and changes in the composition of the

Management Board and Supervisory Board

Management Board

As at 31 December 2018, the composition of LSI Software S.A. Management Board was as follows:

Bartłomiej Grduszak	- President of the Management Board
Michał Czwojdziański	- Vice-President of the Management Board
Grzegorz Strąk	- Member of the Management Board

On 31 January 2018 the General Meeting adopted a resolution on dismissal of Henryk Nester from the position of Member of the Management Board.

Supervisory Board

As at 31 December 2018, the composition of LSI Software S.A. Supervisory Board was as follows:

Grzegorz Siewiera	- Chairman of the Supervisory Board
Krzysztof Wolski	- Vice-Chairman of the Supervisory Board
Andrzej Kurkowski	- Member of the Supervisory Board
Piotr Kraska	- Member of the Supervisory Board (appointed on 31 January 2018)
Maciej Węgierski	- Member of the Supervisory Board (appointed on 29 June 2018)

On 15 January 2018, Mr. Piotr Kardach, Member of the Company's Supervisory Board, resigned as a Member of the Supervisory Board. On 31 January 2018 the Extraordinary General Meeting decided to appoint Mr. Piotr Kraska to the Supervisory Board of the Company, entrusting him with the function of a Member of the Supervisory Board. Moreover, on 29 June 2018 the Ordinary General Meeting of Shareholders dismissed Mr. Grzegorz Kwiatkowski from the function of Member of the Supervisory Board and appointed Mr. Maciej Węgierski in his place.

Audit Committee

As at 31 December 2018, the composition of the Audit Committee was as follows:

Piotr Kraska	- Chairman of the Audit Committee (appointed on 9 March 2018)
Krzysztof Wolski	- Member of the Audit Committee
Andrzej Kurkowski	- Member of the Audit Committee
Grzegorz Siewiera	- Member of the Audit Committee (appointed on 28 May 2018)
Maciej Węgierski	- Member of the Audit Committee (appointed on 21 September 2018)

2. Value of remuneration, awards or benefits, including those resulting from incentive or bonus schemes paid, due or potentially due, separately for each managing and supervising person in the Capital Group

Gross remuneration paid to the members of the governing bodies of LSI Software S.A. and its subsidiary undertaking - GiP Sp. z o.o. for the years 2017 - 2018 under the concluded employment contracts as well as for the functions performed are presented in the table below.

	Function	01.01 -31.12.2018	01.01 -31.12.2017
Remuneration of Members of the Management Board of LSI Software S.A.			
Bartłomiej Grduszak	President of the MB	75	0
Michał Czwojdziniński	Vice-President of the MB/President of the MB of Softech Sp. z o.o.	82	28
Henryk Nester	Member of the MB	10	143
Grzegorz Strąk	Member of the MB	244	167
Remuneration of Members of the Management Board of GiP Sp. z o.o.			
Michał Czwojdziniński	President of the MB	0	0
Bartłomiej Grduszak	Vice-President of the MB	0	0
Leszek Guzowski	Member of the MB	110	113
Marek Pawlak	Member of the MB	0	84
Maciej Guzowski	President of the MB	0	59
TOTAL		521	594
Remuneration of Members of the Supervisory Board of LSI Software S.A.			
Piotr Kardach	Member	0	5
Maciej Węgierski	Member	3	0
Piotr Kraska	Member	6	0
Andrzej Kurkowski	Member	6	6
Grzegorz Kwiatkowski	Member	2	5
Krzysztof Wolski	Vice-Chairman	9	9
Grzegorz Siewiera	Chairman	16	14
TOTAL		42	39

Remuneration of members of the Management Board payable in connection with agreements concluded with Group's companies in terms of provision of services is presented in Note 48 of the Annual Separate Financial Statement and Note 50 of the Consolidated Financial Statement. None of the Group's companies has any liabilities resulting from pensions or similar benefits towards former managing, supervising or administrative bodies, nor any liabilities incurred in connection with such pensions.

3. Agreements concluded between the Group and managing persons providing for compensation in the event of their resignation or dismissal from their positions without valid reason, or in the event their dismissal or resignation results from the merger of LSI Software S.A. by acquisition

The agreements concluded between LSI Software Group and the managing bodies do not provide for any compensation in the event of their resignation or dismissal. Severance pay or compensation payments, if any, related to employment contracts are governed by the Polish Labor Code, whereas, these agreements do not contain any provisions to that effect. The agreements concluded between the Group and its management staff do not contain any provisions on severance pay related to dismissal or dismissal due to the Issuer's merger through acquisition. The above does not apply to remuneration for compliance with non-compete clauses after the termination of cooperation, which the Company may unilaterally limit in time. In such case, the remuneration will be payable only for the actual duration of the non-compete clause.

4. Shares and participating interests of LSI Software Group's entities as well as shares and participating interests in associates held by managing and supervising persons

The share capital of LSI Software S.A. amounts to PLN 3,260,762 and is divided into 3,260,762 shares with a par value of PLN 1 each. The table below presents the number of shares in LSI Software S.A. held by the managing and supervising persons as at 31 December 2018.

	Number of shares	Number of votes	% of votes at GM
Michał Czwojdzinski (Vice-President of the Management Board)	19 000	19 000	0,39
Grzegorz Siewiera (Chairman of the Supervisory Board)	1 000 000	2 600 000	53,49
Krzysztof Wolski (Vice-Chairman of the Supervisory Board)	1 000	1 000	0,02
Piotr Kraska (Member of the Supervisory Board)	457 644	457 644	9,42

As at the date of publication of the financial statement hereof, the shareholding of Mr. Piotr Kraska was as follows:

	Number of shares	Number of votes	% of votes at GM
Piotr Kraska (Member of the Supervisory Board)	458 723	458 723	9,44

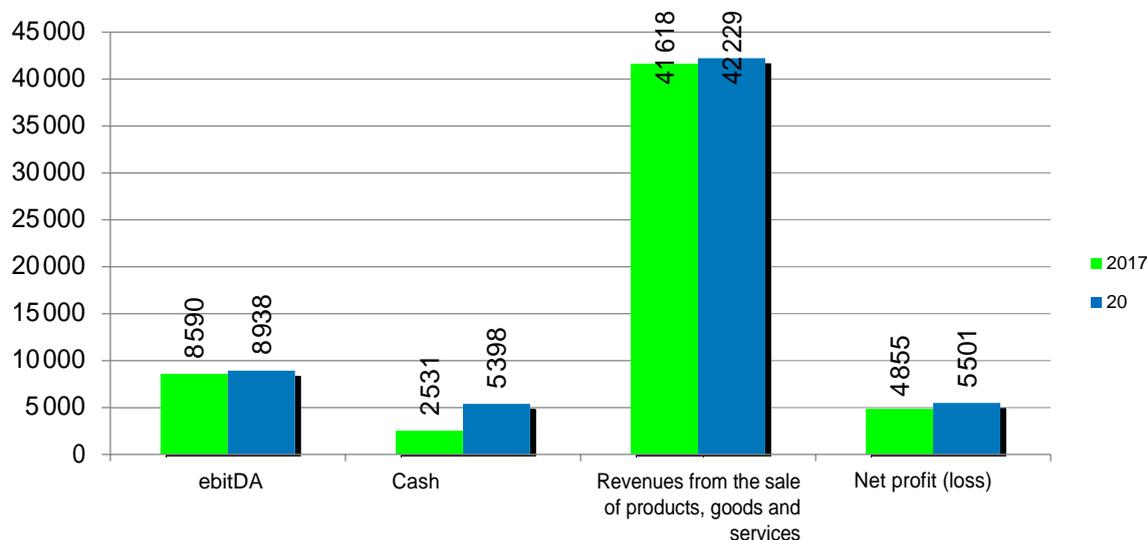
As at 31 December 2018 and as at the date of approval of the financial statement hereof, Members of the Management and Supervisory Boards did not hold any share options or other rights to shares of the Company. The sole shareholder of all subsidiaries is LSI Software S.A., excluding BluePocket S.A., which is a jointly-controlled company. LSI Software S.A. holds 50% of shares in the share capital of BluePocket S.A.

V. Presentation of the financial situation

1. Discussion of basic economic and financial figures disclosed in the Annual Separate Financial Statement

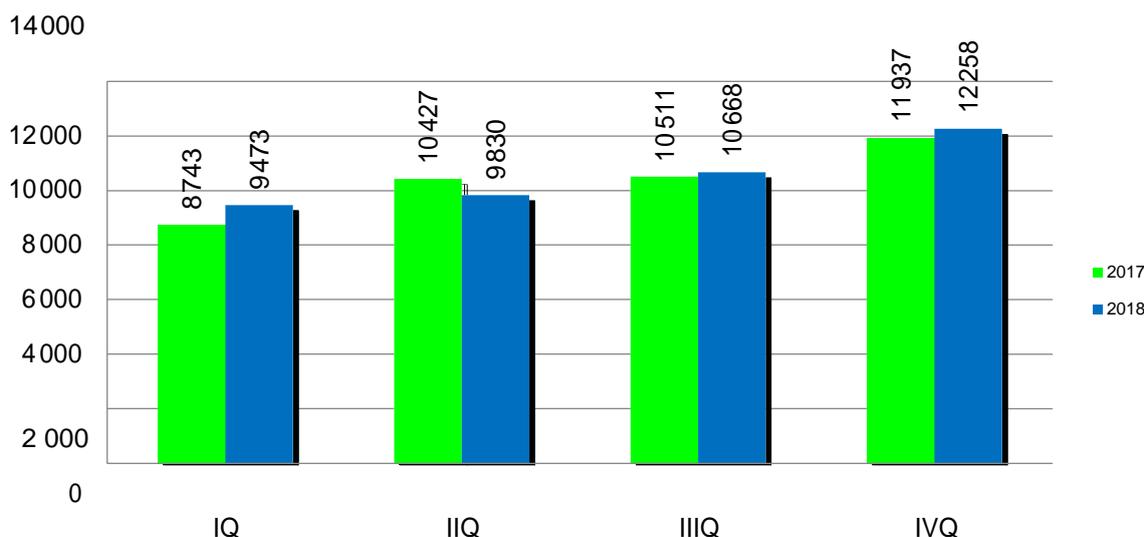
In 2018, the Company carried out reorganization procedures related to the merger with its subsidiary Softech Sp. z o.o. as well as activities aimed at improving the profitability of its business operations. The effect of these actions is over 13% increase in net profit from the amount of PLN 4,855 thousand at the end of 2017 to PLN 5,501 thousand in 2018 and only 1% growth in sales revenues. In the opinion of the Management Board, the reason for the observed stagnation in revenues was, among others, the reduction of the average annual employment in 2018 by 18 FTEs in relation to 2017. Moreover, the relatively low growth rate of revenues in relation to 2017 was also affected by a decrease in the volume of sales of goods and materials, which recorded a 5% y/y drop due to a reduction in the number of rollouts performed in 2018 by the Company's main network customers. In addition, this factor was reinforced by a change in the structure of foreign sales, in which the share of turnover generated with the participation of local distributors, increased.

Selected data	12 months until	12 months until	Change
	31.12.2018	31.12.2017	
Revenues	42 229	41 618	101%
Gross profit/loss on sales	9 560	11 113	86%
EBIT	5 566	5 483	102%
EBITDA (EBIT+Depreciation)	8 938	8 590	104%
Net profit/loss	5 501	4 855	113%
Cash	5 398	2 531	213%



It is worth noting that the above changes led to a significant increase in productivity in 2018 and an increase in EBITDA margin by 0.6 p.p. to 21.2% and in net profit margin by 1.3 p.p. from 11.7% to 13% as at the end of 2018. However, the opposite situation is observed in the case of profitability of services rendered in connection with the increase in the costs of employment in this area of activity, which is particularly noticeable at the level of gross profit margin, which in 2018 decreased by 4.1 p.p. to 22.6%. In the period covered by the financial statement hereof, the value of total assets of the Company increased by nearly 11% from PLN 40,081 thousand to PLN 44,402 thousand. The change in the balance sheet total is mainly related to the increase of: intangible assets, trade receivables and other receivables, cash and cash equivalents.

Sales revenues quarterly



As at the end of 2018, the share of intangible assets in the Company's balance sheet total was nearly 26%, i.e. by 1 pp lower than as at the end of 2017. The dominant item of current assets are trade receivables (nearly 47% of current assets) and cash (30% of current assets). The value of equity as at the end of 2018 increased by 17% as compared to the end of 2017 and amounted to PLN 33,343 thousand. In 2018, the Company's share capital did not change comparing to 2017 and amounted to PLN 3,261 thousand. As at 31 December 2018, the total liabilities of LSI Software S.A. decreased by more than 5% as compared to the end of 2017 and amounted to PLN 11,059 thousand. The main items of the Company's short-term liabilities are trade and other liabilities. In the period covered by the financial statement hereof, the Company used external financing in the form of credit and lease agreements. The equity continues to be the main source of financing for LSI Software S.A. (75% of the balance sheet total). The Company's general debt ratio remains at a lower level than a year ago and stands at 24.9%. This guarantees the Company's current solvency and compliance with the conditions for maintaining safe levels of indebtedness under the concluded agreements with financial institutions. The Company's projected financial performance may change in subsequent periods as a result of the introduction of IFRS 16. In addition, the Company does not anticipate any impact of extraordinary items on its financial position in the next financial year. Additional information essential for the assessment of the financial position:

- there was a material, more than twofold increase in cash and cash equivalents from PLN 2,531 thousand as at the end of 2017 to PLN 5,398 thousand as at the end of 2018,
- the value of working capital increased significantly from PLN 5,344 thousand to PLN 9,169 thousand, which represents a 72% increase as compared to 2017.

Profitability ratios	12 months until 31.12.2018	12 months until 31.12.2017	Change
Gross profit margin on sales	22,6%	26,7%	-4,1 p.p
EBITDA margin	21,2%	20,6%	0,6 p.p
Operating profit margin	13,2%	13,2%	0,0 p.p
Net profit margin	13,0%	11,7%	1,3 p.p

Gross profit margin = gross profit on sales / sales revenues
EBITDA margin = EBITDA / sales revenues
Operating profit margin = operating profit / sales revenues
Net profit margin = net profit / sales revenues

Liquidity ratios	31.12.2018	31.12.2017	Change
Working capital	9 169	5 344	172%
Current ratio	2,0	1,5	0,5 p.
Quick ratio	1,7	1,2	0,5 p.
Cash ratio	0,6	0,3	0,3 p.

Working capital = Current assets (current liabilities) - Current liabilities
Current ratio = Current assets (short-term) / Short-term liabilities
Quick Ratio = (Current Assets - Inventories - Accruals) / Short-term liabilities
Cash ratio = Cash and short-term deposits / short-term liabilities

Debt ratio	31.12.2018	31.12.2017	Change
Debt ratio	24,9%	29,4%	-4,5 p.p
Debt / Equity	7,5%	15,5%	-8,0 p.p
Debt / (Debt + Equity)	7,0%	13,4%	-6,4 p.p

Debt ratio = (Long-term liabilities + Short-term liabilities) / Assets
Debt / Equity = (interest bearing bank loans, debt securities + finance lease liabilities) / Equity
Debt / (Debt + Equity) = (Interest bearing bank loans, debt securities + Financial lease liabilities) / (Interest bearing bank loans, Debt securities + Financial lease liabilities + Equity)

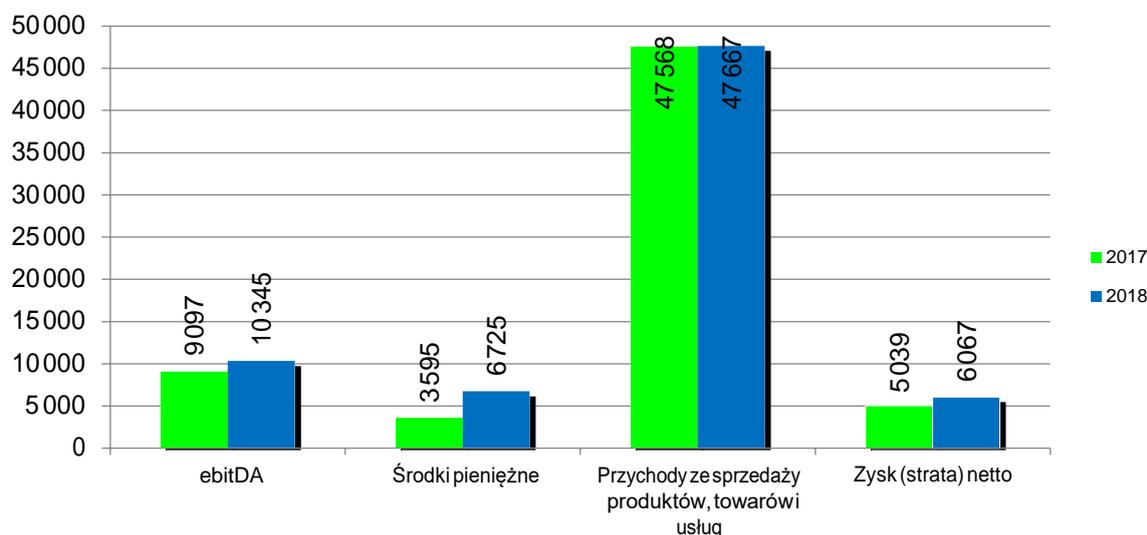
2. Discussion of basic economic and financial figures disclosed in the Annual Consolidated Financial Statement

In 2018, the Capital Group, following the continued development of its operations, led to a slight increase in sales revenues, which reached the level of PLN 47,667 thousand in relation to PLN 47,568 thousand in 2017. In the opinion of the Management Board, the reason for the observed stagnation in revenues was, among others, the reduction in the average annual employment in 2018 by 31 FTEs in relation to 2017. Moreover, the relatively low growth rate of revenues in relation to 2017 was also affected by a decrease in the volume of sales of goods and materials, which recorded a 6% y/y decrease due to a decrease in the number of rollouts performed in 2018 by main network customers of the Group.

In addition, this factor was reinforced by a change in the structure of foreign sales, in which the share of turnover generated with the participation of local distributors, increased. The year 2018 was the period during which the Group undertook reorganization activities related to the merger of LSI Software S.A. with its subsidiary Softech Sp. z o.o. The Issuer also sought to improve the profitability of its business operations. Such actions resulted in an over 20% increase in net profit from PLN 5,039 thousand as at the end of 2017 to PLN 6,067 thousand in 2018.

Selected data	12 months until 31.12.2018	12 months until 31.12.2017	Change
Revenues	47 667	47 568	100%
Gross profit/loss on sales	11 335	13 317	85%
EBIT	6 642	5 727	116%
EBITDA (EBIT+Depreciation)	10 345	9 097	114%
Net profit/loss	6 067	5 039	120%
Cash	6 725	3 595	187%

A slight worsening has been recorded in the profitability of the business operations at the level of gross margin on sales which is related to the introduction of cost accounting in GiP Sp. z o.o. in 2018 and the adjustment of the rules of classification of sales costs in this company to the rules binding in the Group. The above change resulted in transferring part of the cost of sales to the manufacturing costs of sold products and services in relation to the data presented in 2018.



At the same time, it should be noted that the changes described above led to a significant increase in productivity in 2018 and an increase in EBITDA margin by 2.6 p.p. to 21.7% as well as in net profit margin by 2.1 p.p. from 10.6% to 12.7% as at the end of 2018.

Profitability ratios	12 months until 31.12.2018	12 months until 31.12.2017	Change
Gross profit margin on sales	23,8%	28,0%	-4,2 p.p
EBITDA margin	21,7%	19,1%	2,6 p.p
Operating profit margin	13,9%	12,0%	1,9 p.p
Net profit margin	12,7%	10,6%	2,1 p.p

Gross profit margin = gross profit on sales / sales revenues

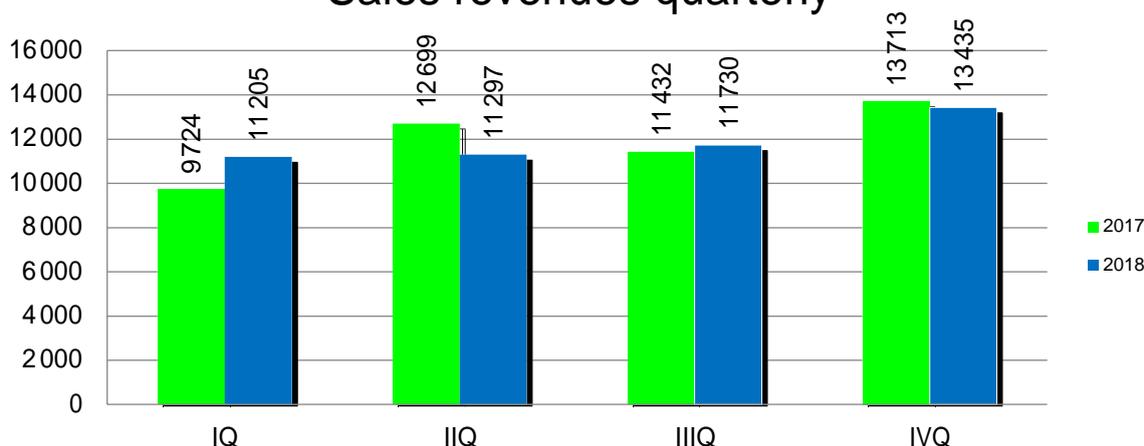
EBITDA margin = EBITDA / sales revenues

Operating profit margin = operating profit / sales revenues

Net profit margin = net profit / sales revenues

In the period covered by the financial statement hereof, the value of total assets of the Group increased by nearly 1% from PLN 44,092 thousand to PLN 44,442 thousand. The change in the balance sheet total is mainly related to the increase of: cash and cash equivalents, intangible assets, trade receivables.

Sales revenues quarterly



As at the end of 2018, the share of intangible assets in the Group's balance sheet total was nearly 27%, i.e. 2 p.p. higher than as at the end of 2017. The predominant items of current assets are trade receivables (nearly 44% of current assets) and cash (33% of current assets). The value of equity as at the end of 2018 increased by 2% as compared to the end of 2017, to the level of PLN 32,856 thousand. In 2018 the share capital of LSI Software SA remained unchanged as compared with that generated in 2017 and amounted to PLN 3,261 thousand. As at 31 December 2018, total liabilities of the Group decreased by more than 3% versus the end of 2017 and amounted to PLN 11,586 thousand. The main items of the Issuer's short-term liabilities are trade liabilities and other liabilities. In the period covered by the statement, the Group used external financing in the form of loans and lease agreements. Equity continues to be the main source of financing of Group's operations (74% of the balance sheet total). The Group's general debt ratio remains at a lower level than in the previous year and stands at 26.1%. This guarantees the current solvency of the Group's companies and their compliance with the conditions for maintaining safe levels of indebtedness resulting from agreements concluded with financial institutions. The Group's projected financial performance may change in subsequent periods as a result of the introduction of IFRS 16. In addition, the Company does not anticipate any impact of extraordinary items on its financial position in the next financial year.

Liquidity ratios	31.12.2018	31.12.2017	Change
Working capital	10 992	6 986	157%
Current ratio	2,2	1,7	0,5 p.
Quick ratio	1,8	1,4	0,4 p.
Cash ratio	0,7	0,4	0,3 p.

Working capital = Current assets (current liabilities) - Current liabilities
Current ratio = Current assets (short-term) / Short-term liabilities
Quick Ratio = (Current Assets - Inventories - Accruals) / Short-term liabilities
Cash ratio = Cash and short-term deposits / short-term liabilities

Additional information essential for the assessment of the financial position:

- there was a material, more than twofold increase in cash and cash equivalents from PLN 3,595 thousand as at the end of 2017 to PLN 6,725 thousand as at the end of 2018,
- the value of working capital increased significantly from PLN 6,986 thousand to PLN 10,992 thousand, which represents a 57% increase as compared to 2017.

Debt ratio	31.12.2018	31.12.2017	Change
Debt ratio	26,1%	27,2%	-1,1 p.p
Debt / Equity	7,9%	12,9%	-5,0 p.p
Debt / (Debt + Equity)	7,3%	11,4%	-4,1 p.p

Debt ratio = (Long-term liabilities + Short-term liabilities) / Assets

Debt / Equity = (interest bearing bank loans, debt securities + finance lease liabilities) / Equity

Debt / (Debt + Equity) = (Interest bearing bank loans, debt securities + Financial lease liabilities) / (Interest bearing bank loans, Debt securities + Financial lease liabilities + Equity)

3. Extraordinary (atypical) events

In the analysed period, no extraordinary or atypical events occurred in the Group.

4. Assessment of factors and atypical events affecting the result on operations for the financial year, including the extent to which such factors or atypical events affect the achieved result

The analysis and assessment of factors and atypical events, along with the description of their impact on the Company's/the Group's results, have been presented in points V.1 - V.3 of this report.

5. Group's development perspective

The key element of LSI Software Group's strategy is to provide its own software and IT services to business clients operating in the following sectors/industries:

1. Retail sector – covering:

- retail sales network,
- manufacturing, trading and service companies,
- public and local administration authorities

2. Hospitality sector covering:

- cinema market,
- catering market,
- accommodation and spa market,
- sports, recreational and fair facilities market.

The value of the Capital Group is based on two pillars. The first one consists in organic development based on proprietary software and services, while the second one involves increasing the scale of operations through acquisitions and setting up new entities operating on selected markets outside Poland. In 2018 the demand for IT services and products offered by the Group remained stable although there were some changes in its structure. An increase in the share of revenues from sales of products was observed, with a simultaneous decrease in demand for services and goods provided by the Group's companies. The current portfolio of the Group's orders ensures full use of its production capacity in the perspective of the next 12 months. One of the key elements of the Group's development strategy is the expansion of the POSitive® Cinema distribution network. In this respect, the Group has established cooperation with, among others, Cine Project Group - another partner in the cinema industry, with whom the Group acquires customers from Western and Eastern Europe. As a result of activities undertaken in connection with expansion into foreign markets, in 2019 the Group launched new implementation projects in cinema chains operating in Switzerland and Saudi Arabia. At present, pre-implementation analyses are also conducted for new clients from the United States and Israel. POSitive® Cinema enjoys great interest in the cinema industry, which in the opinion of the Management Board will have a measurable impact on the Company's financial results in 2019 as well as in the following years. Another element of the Group's organic development involves incurring expenditures on the development of existing products and developing new ones. Thanks to a wide range of own products, infrastructure, human and capital resources, the Group is able to adapt flexibly to the business models expected by its customers. Observing the situation on the labour market, the Issuer has increased its focus on developing tools to optimise and automate business processes. This strategy is closely related to the dynamic development of the offer of self-service solutions including both software and hardware. In the opinion of the Management Board, the Group will record significant sales growth in this area in subsequent periods. The Management Board of the Company also undertakes actions aimed at increasing the Group's market share in particular industries through direct acquisitions or investments in new products.

The Issuer is primarily interested in profitable entities with highly specialized and committed staff. The purpose of the acquisitions being carried out is also to increase competencies in key sectors of activity. The directions of the Issuer's development will also involve obtaining funds from the European Union Funds for the years 2014-2020. At present, Group's companies are implementing EU projects with a total value of nearly PLN 2 million. According to the Management Board, the EU funds should also increase the Group's sales in connection with the increase in capital expenditures incurred by companies from the industries operated by LSI Software. The above directions of development, as well as strong financial foundations of the Group, which is a market leader in its industry, give stable grounds for further organic development of both LSI Software S.A. and its subsidiaries in 2019.

6. Assessment of financial resources management

In the period covered by the report hereof, the Company and the Group financed their operations mainly with the funds generated from their core business. The financial liquidity of the Company and the Group remains at a safe level, and their debt ratios are relatively low. In order to manage the held capital more effectively, the Group has used external financing only for the implementation of the assumed investment tasks, as well as for covering the capital expenditures realized in 2018. In the opinion of the Management Board, at present there are no significant threats which could limit the Group's ability to meet its contracted obligations.

7. Assessment of the feasibility of investment projects, including capital investments, in comparison to the funds held, including possible changes in the structure of financing of operations

In the opinion of the Management Board of a Dominant Company, as at the balance sheet date, there are no threats to the possibility of implementing investment projects, including capital investments.

8. Explanation of differences between financial results disclosed in the annual report and previously published forecasts

The Group's companies did not publish forecasts of financial results for the period from 01.01.2018 to 31.12.2018.

9. Description of the structure of assets and liabilities as disclosed in the consolidated statement of financial position, including from the perspective of the Group's liquidity

Information on the structure of assets and liabilities disclosed in the consolidated statement of financial position, including from the perspective of the Company's/the Group's liquidity, and discussion of basic economic and financial figures together with key indicators is presented in section V.1 - V.2 of this report.

10. Presentation of significant off-balance sheet items by counterparty, subject matter and value

Significant off-balance sheet items by counterparty, subject matter and value have been presented in point II.7 of the report hereof.

11. Description of the structure of major capital investments or major capital expenditures made within the Company's Group in a given financial year

In 2018, LSI Software SA fulfilled its financial liability in the amount of PLN 348 thousand arising from the acquisition of shares in its subsidiary Positive Software USA LLC. The Company also paid the second instalment in the amount of PLN 1,150 thousand being due as a remuneration for acquisition of 100% of shares in GiP Sp. z o.o. Apart from the above payments, in 2018 the Group did not make any capital investments or incur any significant capital expenditures.

12. Adopted objectives and methods of financial risk management, including methods of hedging significant types of planned transactions, for which hedge accounting is applied

Neither the Company nor the Group adopted financial risk management objectives and methods and did not apply hedge accounting as both the Company and the Group did not acquire financial instruments for which this would be necessary. The risks of price changes, credit risk, the risk of significant cash flow disruptions and loss of financial liquidity to which the Company is exposed are described in Note 43 to the Annual Separate Financial Statement and Note 45 to the Annual Consolidated Financial Statement.

VI. Corporate Governance Rules

Acting in compliance with § 70 section 6 item 5 of the Regulation of the Minister of Finance of 29 March 2018 on current and interim information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent (Journal of Laws of 2018, item 757), the Management Board of LSI Software SA presents a Statement on compliance with corporate governance rules in 2018.

1. Indication of a set of corporate governance principles applied by the issuer

In 2018 LSI Software S.A. complied with corporate governance rules described in the document "Best Practice for GPW Listed Companies 2016" (Best Practice, being an Annex to the Resolution of the Warsaw Stock Exchange Supervisory Board No 26/1413/2015 of 13 October 2015 on the adoption of a new set of corporate governance rules - "Best Practice for GPW Listed Companies 2016"). The text of the set of Best Practice to which the Dominant Company is subject is published on the website of the Warsaw Stock Exchange at https://www.gpw.pl/lad_korporacyjny_na_gpw

2. Indication of the extent to which the Issuer derogates from the application of corporate governance rules and explanation of the reasons for this derogation

According to the current state of compliance with Best Practice, the Company does not apply 4 recommendations: III.R.1., IV.R.2., IV.R.3., VI.R.3.

According to the current state of compliance with Best Practice, the Company does not apply 14 detailed principles: I.Z.1.10., I.Z.1.16., I.Z.1.20., I.Z.2., II.Z.2., III.Z.1., III.Z.2., III.Z.3., III.Z.4., III.Z.5., IV.Z.2., IV.Z.9., V.Z.6., VI.Z.2.

I.Z.1.10. financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation

The Company does not publish and did not publish the financial projections in the last 5 years.

I.Z.1.16. information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting

The Company does not apply the principle regarding the transmission of the general meeting due to a low degree of shareholding dispersion and significant costs associated with applying this rule.

I.Z.1.20. an audio or video recording of a general meeting

The Company does not apply the principle regarding an audio or video recording of a general meeting due to a low degree of shareholding dispersion and significant costs associated with applying this rule.

I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity.

The shareholding structure and the nature and scope of business activities do not support the application of this principle. However, the Company ensures the availability of its website is available in English to the extent required under the Liquidity Support Program.

II.Z.2. A company's management board members may sit on the management board or supervisory board of companies other than members of its group subject to the approval of the supervisory board.

This derogation is temporary. The Company will make every effort to ensure that at the forthcoming meeting of the Supervisory Board of the Company, the issue regarding performing by Member of LSI Software S.A. Management Board of functions in a company from outside the group, is reviewed.

III.R.1. The company's structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company's activity.

Company's structure will not include separate units responsible for the performance of tasks in individual systems or functions, due to the fact that it is not justified by the size or type of the Company's activity.

III.Z.1 The company's management board is responsible for the implementation and maintenance of efficient internal control, risk management and compliance systems and internal audit functions

The Company has not separated the internal audit functions due to the fact that it is not justified by the size or type of the Company's activity.

III.Z.2 Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

The Company has not separated the internal audit functions due to the fact that it is not justified by the size or type of the Company's activity.

III.Z.3 The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.

The Company has not separated the internal audit functions due to the fact that it is not justified by the size or type of the Company's activity.

III.Z.4 The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

The Company has not separated the internal audit functions due to the fact that it is not justified by the size or type of the Company's activity.

III.Z.5 The supervisory board should monitor the efficiency of the systems and functions referred to in principle III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to principle II.Z.10.1. Where the company has an audit committee, it should monitor the efficiency of the systems and functions referred to in principle III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.

The principle is not applied by the Company in terms of the internal audit functions due to the size and type of the Company's activity.

IV.R.2. The principle is not applied by the Company in respect of the internal audit functions due to the size and type of the Company's activity. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general

meeting using such means, in particular through: 1) real-life broadcast of the general meeting; 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting; 3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

The Company does not provide for the possibility of conducting the General Meeting by means of electronic communication due to a low degree of shareholding dispersion and significant costs associated with applying this rule.

IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

The shares of the Company are listed in Poland only.

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

The Company does not apply the principle regarding the transmission of the general meeting due to a low degree of shareholding dispersion and significant costs associated with applying this rule.

IV.Z.9. Companies should strive to ensure that draft resolutions of the general meeting contain a justification, if it helps shareholders to pass a resolution with adequate understanding. If a matter is put on the agenda of the general meeting at the request of a shareholder or shareholders, the management board or the chair of the general meeting should request presentation of the justification of the proposed resolution. In important matters and matters which may give rise to any doubt of shareholders, the company should provide a justification, unless it otherwise provides the shareholders with information necessary to pass a resolution with adequate understanding.

This principle will be applied unless its application will not be detrimental to the Company.

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

The Company does not apply this principle. The Company, however, does not prejudice the possibility of preparation of internal regulations providing among others for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest.

VI.R.3. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

The Company has not appointed a remuneration committee within its Supervisory Board.

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

Before the entry into force of the "Best Practice for GPW Listed Companies 2016", as part of the incentive programs, the instruments were used, which were characterized by the fact that the period between their allocation and execution was less than 2 years.

3. Internal control and risk management systems in relation to the process of preparing financial statements and consolidated financial statements

Preparation of financial statements is carried out in a systematic manner and is based on the Company's organisational structure. Transactions are carried out on the basis of their general or

individual acceptance by Members of the Management Board (depending on the importance of the transaction). Documents reflecting the course of the transaction are checked, accepted and described in terms of content, form and accounting by persons responsible for the execution of transactions. Significant transactions and agreements are verified by a legal adviser or tax advisor in order to ensure that events are properly recorded in the accounting books in compliance with the balance sheet and tax law. All transactions and other events are immediately recorded in their respective amounts, on their respective accounts and in the relevant accounting period so as to enable the preparation of financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS"), the Accounting Act of 29 September 1994 (as amended) and to the extent not regulated by IFRS in accordance with the requirements for the preparation of financial statements and consolidated financial statements set out in the Regulation of the Minister of Finance of 29 March 2018 on current and interim information provided by issuers of securities and conditions under which information required by legal regulations of a third country may be recognised as equivalent as well as in line with the Accounting Policy. Recorded assets are physically compared with their actual balance through stock-taking. Internal control and risk management with respect to the process of preparing financial statements are performed by the Audit Committee, Supervisory Board, Management Board and by all levels of employees. The internal control system developed and applied in the scope of accounting documentation ensures reliability, completeness and timeliness of information included in financial statements, as well as compliance with relevant provisions of law and executive regulations. The Company monitors the significant legal risk factors on an ongoing basis. Quarterly, semi-annual and annual financial statements are regularly presented by the Management Board to the Audit Committee and the Supervisory Board of the Company.

4. Shareholders holding significant block of shares

As at 31 December 2018, the shareholding structure of the Company was as follows:

Shareholder	Number of shares	% of share capital	Number of votes	% of votes at GM
SG Invest Sp. z o.o./ Grzegorz Siewiera	1 000 000	30,67%	2 600 000	53,49%
Yavin Limited / Piotr Kraska	457 644	14,03%	457 644	9,42%
Inmuebles Polo SL	250 000	7,67%	250 000	5,14%
Other shareholders	1 502 633	46,08%	1 502 633	30,91%
LSI Software S.A. (own/treasury shares)	50 485	1,55%	50 485	1,04%
Total	3 260 762	100,00%	4 860 762	100,00%

5. Holders of any securities conferring special control powers

As at the date of the report hereof publication, 400 000 series B registered shares are multiple-vote securities which means that each share entitles to five (5) votes at the General Meeting of the Company, giving a total of 2,000 thousand votes held by Grzegorz Siewiera.

6. Restrictions on voting rights

As at the day of preparing the financial statement hereof and as at the end of the period covered by the financial statement, there are no restrictions in the Dominant Company in respect of the exercise of voting rights at the General Meeting of Shareholders.

7. Restrictions on the transfer of ownership rights to securities

As at the day of preparing the financial statement hereof and as at the end of the period covered by the financial statement, there are no restrictions in the Dominant Company in respect of ownership rights to securities.

8. Description of rules for amending the Issuer's Articles of Association

Amendments to the Articles of Association are within the competence of the General Meeting. Each time after the registration of amendments to the Articles of Association, the consolidated text of the Articles of Association is determined by the Supervisory Board.

9. Manner of operation of the General Meeting and its major powers, description of shareholders' rights and procedures for exercising such rights

The manner of operation of the General Meeting is governed by the Rules of the General Meeting and the provisions of the Articles of Association of LSI Software S.A. The documents are available on the Company's website at the address: <https://www.lsisoftware.pl/inwestorzy/dokumenty-spolki/>

The General Meeting is convened by way of an announcement on the Company's website and in the manner specified for the disclosure of current information by public companies. General Meetings are held in Łódź or Warsaw. The General Meeting is opened by the Chairman of the Supervisory Board or another Vice-Chairman of the Supervisory Board, and if they are absent, the Supervisory Board may authorise another person to open the General Meeting. Then, the person opening the Meeting orders the election of the Chairman of the Meeting from among the persons entitled to participate in the General Meeting. The Chairman of the General Meeting should ensure that the proceedings are conducted efficiently and that the rights and interests of all shareholders are respected. The Chairman shall in particular prevent abuse of rights by the participants of the General Meeting and ensure that the rights of minority shareholders are respected. The Chairman should not, without important reasons, resign from his function, nor may he, without justified reasons, delay the signing of the minutes of the General Meeting. The competences of the General Meeting include in particular:

- a) review and approval of the Management Board's report on the Company's activities and the financial statements for previous financial year,
- b) distribution of profit or loss,
- c) setting the dividend record date and dividend payment date,
- d) granting a vote of acceptance to members of the Company's governing bodies for the discharge of their duties,
- e) change of the business scope of the Company,
- f) appointment and dismissal of Members of the Management Board of the Company,
- g) appointment and dismissal of Members of the Supervisory Board under the rules set forth in the Commercial Companies Code and in these Articles of Association, and determination of the rules governing the remuneration of Members of the Supervisory Board,
- h) amendment of the Company's Articles of Association,
- i) increase or decrease of the share capital,
- j) purchase of own shares in the situation specified in art. 362.1.2 of the Commercial Companies Code,
- k) redemption of shares,
- l) use of the Company's supplementary capital,
- m) creating earmarked funds,
- n) merger, transformation and demerger of the Company,
- o) dissolution and liquidation of the Company,
- p) sale or lease of the enterprise or its organised part and establishment of a limited right in rem on the enterprise or its organised part,
- q) any provisions relating to claims for compensation for damage caused in the exercise of management or supervision,
- r) adoption of the Rules of Procedure of the General Meeting.

Matters submitted for discussion at the General Meeting should be previously submitted to the Supervisory Board for its opinion. The rights of shareholders and the manner of their execution are regulated by the Company's Articles of Association, the Rules of Procedure of the General Meeting and the Commercial Companies Code. The shareholders shall have access to the documentation concerning the General Meeting. In the announcement on the convening of the General Meeting, the Company provides the address of the website where the information concerning the General Meeting is made available. The full text of the documentation to be presented at the General Meeting, draft resolutions and all information concerning the General Meeting shall be available at the Company's registered office. A shareholder or shareholders representing at least 1/20 of the share capital may request the convening of an Extraordinary General Meeting. These shareholders may also request that certain issues be placed on the agenda of the next General Meeting. Such a request should contain a justification or a draft resolution concerning the proposed item on the agenda. This request

should be submitted to the Management Board of the Company no later than 21 days before the date of the General Meeting. Each Shareholder may be heard during the General Meeting. The Chairman shall call upon a given shareholder to speak. During the discussion, each Shareholder may request that any draft resolution be amended, specifying the appropriate justification for the proposed amendment. The Chairman shall take into account the change of the draft resolution if none of the participants objects to such change. If an objection is raised, the Chairman shall put the proposed change to the vote at the General Meeting. The General Meeting adopts a resolution on accepting or rejecting the proposed change. Shareholders during the General Meeting or outside the General Meeting have the right to submit requests to be provided with information concerning the Company.

10. Composition, changes thereto and description of the functioning of the management and supervisory boards of LSI Software S.A. in 2018

Management Board

As at 31 December 2018, the composition of LSI Software S.A. Management Board was as follows:

Bartłomiej Grduszek	- President of the Management Board
Michał Czwojdziański	- Vice-President of the Management Board
Grzegorz Strąk	- Member of the Management Board

On 31 January 2018 the General Meeting adopted a resolution on dismissal of Henryk Nester from the Management Board. The Management Board of LSI Software S.A. operates pursuant to the Act of 15 September 2000 – the Commercial Companies Code and other applicable laws, the Company's Articles of Association, and the Rules of Procedure of the Management Board. In performing their duties, members of the Management Board are also guided by the principles set forth in the Best Practice. The Management Board's term of office is five years and is a joint term of office. The term of office of the current Management Board began on 20 June 2016 and expires on 30 June 2021. The Management Board shall make decisions in the form of resolutions at the meetings convened by the President of the Management Board on his own initiative or at the request of a member of the Management Board or at the request of the Supervisory Board. Resolutions of the Management Board may also be adopted outside a meeting of the Management Board in writing or using means of direct remote communication, provided that all members of the Management Board have been notified of the content of the draft resolution. Each member of the Management Board shall have the right, without a prior resolution of the Management Board, to individually manage matters which remain within the scope of competences granted to a given member by the Rules of Procedure of the Management Board or by a resolution of the Management Board.

In the period from 31 December 2018 and until the date of publication of the report hereof, there were no changes in the composition of the Management Board.

Supervisory Board

The Supervisory Board of LSI Software SA operates in compliance with the Act of 15 September 2000 - the Commercial Companies Code and other provisions of law, the Company's Articles of Association, and the Rules of Procedure of the Supervisory Board. The Supervisory Board makes decisions in the form of resolutions at meetings of the Supervisory Board convened by its Chairman or Vice-Chairman. The Supervisory Board may adopt a resolution despite not being formally convened if all its members are present, agree to hold a meeting or to place particular issues on the agenda.

As at 31 December 2018, the composition of the Supervisory Board was as follows:

Grzegorz Siewiera	- Chairman of the Supervisory Board
Krzysztof Wolski	- Vice-Chairman of the Supervisory Board
Andrzej Kurkowski	- Member of the Supervisory Board
Piotr Kraska	- Member of the Supervisory Board (appointed on 31 January 2018)
Maciej Węgierski	- Member of the Supervisory Board (appointed on 29 June 2018)

On 15 January 2018, Mr. Piotr Kardach, Member of the Supervisory Board of the Company, resigned from his membership in the Supervisory Board. On 31 January 2018 the Extraordinary General Meeting decided to appoint Mr. Piotr Kraska to the Supervisory Board of the Company, entrusting him with the function of a Member of the Supervisory Board. Moreover, on 29 June 2018 the Ordinary General Meeting of Shareholders dismissed Mr. Grzegorz Kwiatkowski from the position of Member of the Supervisory Board and appointed Mr. Maciej Węgiński in his place.

In the period from 31.12.2018 until the date of publication of this report, there were no changes in the composition of the Supervisory Board.

Supervisory Board's Audit Committee

The Audit Committee is the only standing committee of the Supervisory Board. Its functioning is governed by the Rules of Procedure of the Committee of the Supervisory Board of LSI Software S.A. approved by the resolution no. 18/RN/2017 of the Supervisory Board of 20 October 2017, as well as by other applicable laws. The Audit Committee performs the consultative and advisory role and fulfils the tasks imposed by the applicable laws, in particular those specified in the Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017. The Audit Committee is authorised to adopt binding resolutions on matters delegated to the Committee by the Supervisory Board.

Komitet Audytu odbył w ciągu roku 2018 cztery posiedzenia w terminach posiedzeń Rady Nadzorczej.

As at 31 December 2018 the composition of the Supervisory Board's Audit Committee was as follows:

Piotr Kraska	- Chairman of the Audit Committee (appointed on 9 March 2018)
Krzysztof Wolski	- Member of the Audit Committee
Andrzej Kurkowski	- Member of the Audit Committee
Grzegorz Siewiera	- Member of the Audit Committee (appointed on 28 May 2018)
Maciej Węgiński	- Member of the Audit Committee (appointed on 21 September 2018)

The majority of members of the LSI Software S.A. Audit Committee, including its Chairman, are independent members within the meaning of Article 129.3 of the Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017. Only Mr. Grzegorz Siewiera does not meet the independence criteria.

Mr. Piotr Kraska, who graduated from the Faculty of Finance and Banking at the Cracow University of Economics and the Warsaw School of Economics, is a member of the Audit Committee who has knowledge and skills in accounting or auditing. In the years 2007-2013 he also held the position of Financial Director at INTER CARS S.A.

Mr. Grzegorz Siewiera is a member of the Audit Committee who has knowledge and skills in the industry in which the Company operates. He served as President of the Management Board of LSI Software S.A. continuously from 1998 to December 2014. He is one of the three founders of the company. From the very beginning he was responsible for the overall functioning of the Company, creation and implementation of new products and development strategy of the Group. Grzegorz Siewiera graduated from the University of Łódź and Włocławek University. He also completed Postgraduate Studies at the University of Łódź - University of Maryland - Executive Master of Business Administration (Executive MBA).

In 2018, the audit firm auditing the Dominant Company's financial statement and the Group's consolidated financial statement did not provide any services to LSI Software S.A. other than the review of semi-annual financial statements and the audit of annual financial statements. The Company applies the following policies adopted by the Audit Committee on 20 October 2017 by Resolution 1/KA/2017:

- a) Policy for the provision of permitted non-audit services by the audit firm carrying out the audit, by entities affiliated with the audit firm and by a member of the network of the audit firm.
- b) Policy and procedures for selecting an audit firm for the statutory audit of the financial statement of LSI Software S.A. and LSI Software Group - the rules were introduced for selecting an audit firm in line with the recommendation of the Audit Committee, the guidelines for its selection and in compliance with the selection rules, as well as the rules resulting from legal regulations concerning rotation and grace periods, contract periods and prohibition of introducing contractual clauses restricting the selection of an audit firm.

In the process of selecting an audit firm to audit the Company's financial statements for the years 2018-2020, the recommendation of the Audit Committee concerning the selection of an audit firm to conduct the audit met the applicable conditions, while the recommendation was drawn up following a selection procedure organised by the Company which met the applicable criteria.

11. Changes in the composition of management and supervisory boards after 31 December 2018

After 31 December 2018 there were no changes in the composition of the management and supervisory boards.

12. Principles for appointing and dismissing Management Board members and their powers

Pursuant to Par. 15 of the Articles of Association of LSI Software SA, the term of office of the Management Board is five years and it is a joint term of office. The current Management Board's term of office began on 30 June 2016 and will expire on 30 June 2021. Members of the Management Board are appointed and dismissed by the General Meeting of Shareholders. Re-appointment of the same person as a member of the Management Board is permissible.

The Management Board of LSI Software S.A. manages all the operations of the Company and represents the Company in court and out of court, manages the Company's assets and affairs, is responsible for proper accounting of the Company and strictly observes the provisions of the Commercial Companies Code, the Company's Articles of Association, resolutions adopted by the General Meeting of Shareholders and the Supervisory Board. The Management Board makes its decisions in the form of resolutions.

Each Member of the Management Board, Proxy and attorney-in-fact acting within the limits of his empowerment, shall be entitled to perform legal actions on behalf of the Company. In order to incur liabilities the value of which exceeds 10% of the share capital, cooperation of two Members of the Management Board or a Member of the Management Board and a Proxy is required. If the value of the liability exceeds 50% (fifty percent) of the share capital, the Management Board shall obtain an opinion of the Supervisory Board before the liability is incurred. In agreements and disputes between the Company and Members of the Management Board, the Company shall be represented by the Supervisory Board or proxies appointed by a resolution of the General Meeting. The detailed procedure of the Management Board is defined in the Rules of Procedure of the Management Board adopted by the Management Board and approved by the Supervisory Board. A decision by the Management Board of LSI Software S.A. to issue or redeem shares requires an opinion of the Supervisory Board and an appropriate resolution of the General Meeting of Shareholders.

VII. Other information

1. Changes in the structure of the Group after 31 December 2018

The structure of the Group has remained unchanged after 31 December 2018. On 20 February 2019, the Municipal Court in Prague registered the increase of the share capital of a subsidiary company - LSI Software s.r.o. from CZK 200 thousand to CZK 3,200 thousand, i.e. to the amount of over PLN 540 thousand.

2. Changes in the composition of management and supervisory boards after 31 December 2018

As of 31 December 2018, Mr. Leszek Guzowski resigned from his function as a member of the Management Board of GiP Sp. z o.o. Furthermore, on 6 February 2019, Mr. Grzegorz Siewiera was appointed a Member of the Management Board of a subsidiary company - LSI Software s.r.o. There were no other changes in the composition of the management and supervisory boards of the Group's companies after 31 December 2018.

3. Proceedings before a court, competent arbitration authority or public administration authority

As at 31 December 2018 and as at the date of submitting this report, neither the Issuer nor its affiliates are parties to any court or arbitration proceedings in which the unit or total value of the subject matter of the dispute would exceed 10% of the Issuer's equity.

Parties to the proceedings	Subject-matter of the proceedings	Value of the subject-matter of the dispute	Date of initiation of the proceedings	Position of the Issuer
LSI Software S.A. against PBU Budopol S.A. in bankruptcy proceedings	Remuneration for construction works	1 075	2013	Amount claimed in lawsuit, entered on the list of claims.
Bascom s.c. Przemysław Szuba Anna Szuba against LSI Software S.A.	Remuneration for construction works	1 101	14.08.2015	The Issuer requests that the claim be dismissed in its entirety.
Ailleron S.A. against LSI Software S.A.	Remuneration	68	02.12.2016	The Issuer requests that the claim be dismissed in its entirety.

4. Information on major developments in research and development

In 2018, the total expenditures of LSI Software S.A. on research and development operations amounted to PLN 6,761 thousand. In that period, the Company conducted 25 projects, including 2 implemented under EU programmes. During the reporting period, 17 projects were completed and put into operation or sold. One of the completed projects is a comprehensive solution for hotel facilities, combining POSitive® IT technologies and the ability to handle hotel automation - IntelliHotel® Intelligent Hotel. At the same time, in 2019 the Company will continue to work on the development of a new generation IT system for managing the "SMART CINEMA" - cinema facility as a result of R&D works of LSI Software S.A. co-financed with EU funds within the Regional Operational Programme of the Łódź Province 2014-2020. In turn, in the same period GIP Sp. z o.o. carried out 2 research and development projects fully financed with own funds for the total amount of PLN 1,449 thousand.

5. Information on environmental issues

Because of the type of business activity conducted, the Company and the Group are not subject to any specific environmental protection regulations.

6. Sponsorship and charity activities

LSI Software Group, being aware of its role in the development of civil society, is involved in various charity actions. Decisions on sponsoring and charity activities are taken individually by the Management Board of the Dominant Unit. The areas covered by this type of activity include mainly:

- promotion of sport (e.g. charity sports tournaments),
- cooperation with charity foundations (e.g. "Szlachetna Paczka"),
- supporting pro-social initiatives (e.g. volunteer blood donation).

7. Employment information

The structure of employment in the Company and its Group is presented in the tables below.

Average employment in LSI Software S.A.

	01.01 -31.12.2018	01.01 -31.12.2017
Management Board	1	2
Administration	8	9
Sales Department	36	41
Production Division	41	45
Other	50	57
Total	136	154

Employment rotation in LSI Software S.A.

	01.01 -31.12.2018	01.01 -31.12.2017
Number of employees recruited	30	40
Number of workers made redundant	48	44
TOTAL	-18	-4

Average employment in LSI Software Group

	01.01 -31.12.2018	01.01 -31.12.2017
Management Board	1	5
Administration	9	12
Sales Department	37	50
Production Division	43	45
Other	57	66
Total	147	178

Employment rotation in LSI Software Group

	01.01 -31.12.2018	01.01 -31.12.2017
Number of employees recruited	30	52
Number of workers made redundant	61	63
TOTAL	-31	-11

8. Entity authorized to audit financial statements

On 28 May 2018, the Supervisory Board of the Company, based on the recommendation of the Audit Committee, adopted the resolution no. 12/RN/2018, pursuant to which it decided to entrust the audit of the separate and consolidated financial statements for the years 2018, 2019 and 2020 to BDO Sp. z o.o. Sp. k. with its registered office in Warsaw, entered on the list maintained by the National Chamber of Statutory Auditors under number 3355. In performance of the above resolution, on 27 July 2018, the Management Board concluded an agreement for the provision of audit services with BDO Sp. z o.o. Sp. k., the scope of which provides for an audit of financial statements (separate and consolidated) for the years 2018 - 2020 and review of semi-annual financial statements in the aforementioned periods. Before the conclusion of the agreement, the Issuer did not use the services of a selected audit firm. The total remuneration due or paid under the agreement with the entity authorized to audit financial statements is presented in the table below.

Remuneration paid or due for the financial year	01.01 -31.12.2018	01.01 -31.12.2017
for the audit of the annual financial statement and consolidated financial statement	48	37
for other assurance services, including review of the financial statement and consolidated financial statement	34	0
for tax advisory services	0	0
for other services	0	12
TOTAL	82	59

Prepared by:

Signatures of Members of the Management Board:



Signed by /
Podpisano przez:

Michał Józef
Czwojdziański

Date / Data: 2019-
04-29 17:07



Signed by /
Podpisano przez:

Grzegorz Strąk

Date / Data: 2019-
04-29 17:11

Bartłomiej Grduszak

*President of the
Management Board*

Michał Czwojdziański

*Vice-President of the
Management Board*

Grzegorz Strąk

*Member of the
Management Board*

Signature of the person drawing up the financial statement:

Bartłomiej Grduszak

*President of the
Management Board*

Dariusz Górski

Chief Accountant

Łódź, 29.04.2019



Signed by /
Podpisano przez:

Bartłomiej Paweł
Grduszak

Date / Data: 2019-
04-29 16:58



Signed by /
Podpisano przez:

Dariusz Górski

Date / Data:
2019-04-29 16:54