LSI Software S.A.

Separate annual report for the year 2019

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 during which the Company achieved its development goals. LSI Software S.A. 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, as the Company achieved a nearly 11% increase in revenue and a net profit of over PLN 6.4 million, the highest in its history.

In 2019, the main factor in the implementation of the Company's strategy was the further development of sales of POSitive® Cinema, which resulted, among other things, in the launch of another implementation projects in the cinema chains operating in the United States of America, Malaysia and Saudi Arabia.

Flexible approach to customers' needs and a range of available solutions translated into a great interest in our offer from catering and hotel chains. The large number of inquiries received ended up in welcoming large HoReCa companies among our Clients, which often decide to switch to our solutions from competitive ones. We are convinced that the systems we provide are perfectly adapted to the requirements of this sector. At the same time, our software is regularly chosen by smaller players, which gives us a stable dominant position in the market.

The Company also continued to expand its offer of self-service solutions, broadening both the software and hardware solutions portfolio, putting particular emphasis on self-service kiosks. These solutions have not only reached the industries we have served so far, such as HoReCa, retail, sports facilities or cinemas, but also new groups of clients with whom we have not previously cooperated in the area of integrated solutions.

At this point it is impossible not to mention one of our recent achievements, namely the introduction of the Cleanline24 product line. Disinfection kiosks are our response to the difficult situation of entrepreneurs caused by the COVID-19 pandemic and are a perfect example of the dynamics at which the Company reacts to changing market requirements.

In 2019 the Company received several significant awards and distinctions for its products

- Double Gold Medal of the Poznan International Fair for Delivery Gastro (also in the Consumers' Choice category),
- The Best Innovation award for Gastro Delivery within the Gastro Meeting conference,
- The Best Product for Hotels and Catering at HORECA® / GASTROFOOD® 2019 Fair for Delivery Gastro

Bearing in mind the current situation in Poland and worldwide, I would like to note that LSI Software S.A. is prepared to operate under the expected economic slowdown caused by the Covid-19 pandemic. I am sure that thanks to a very good financial situation, the ability to react quickly to changing market environment and the involvement of employees, LSI Software will be able to reinforce its market position in the coming months, to the satisfaction of its Clients, Employees and Shareholders.

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, 22 May 2020

(All amounts are expressed in PLN thousand, unless otherwise indicated)

A. Statement of the Management Board

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

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

The annual 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 2019 and the comparable period from 1 January to 31 December 2018.

The Management Board of the Company declares that the Audit Firm which carried out the audit of the annual financial statement was selected in accordance with the law and that this audit firm and the statutory auditors who conducted the audit met the conditions to express an impartial and independent opinion on the audited annual financial statements 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 the 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 both of this selection 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 2019 the Committee held four meetings at the Company's registered office, which were also attended by the President of the Management Board of LSI Software S.A.- Bartłomiej Grduszak. The following resolutions were adopted during these meetings:

- adoption of the report on the activities of the Audit Committee with recommendations to the Supervisory Board,

In 2019, there were no changes in the composition of the Audit Committee.

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 in terms of 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	*Michał Czwojdziński*	*Grzegorz Strąk*
President of the Management Board	*Vice-President of the Management Board*	*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 has 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 2019,
- separate financial statement of LSI Software for the year 2019,
- consolidated financial statement of LSI Software Group for the year 2019.

As a result of the assessment performed, the Supervisory Board concluded that the report on the business activities of the Company and the Group in 2019, 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 2019 audited by a statutory auditor.

Furthermore, the Supervisory Board considers that the separate financial statement for the year 2019, the consolidated financial statement for the year 2019 and the report on the activities of the Company and the Group for the year 2019 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 2019, as well as that these statements and reports are consistent with the books of account, documents and the factual situation.

The Supervisory Board positively assessed the separate financial statement for the year 2019, the consolidated financial statement for the year 2019 and the report on the activities of the Company and the Group for the year 2019 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 31.12.2019 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 thousands of PLN

	01.01.2019 - 31.12.2019		01.01.2018 - 31.12.2018	
	PLN	EUR	PLN	EUR
PROFIT AND LOSS ACCOUNT				
Net revenue from the sale of products, goods and materials	46 791	10 877	42 229	9 897
Cost of sales	37 921	8 815	32 669	7 656
Profit (loss) on operating activities	5 298	1 232	5 566	1 304
Gross profit (loss)	6 646	1 545	5 951	1 395
Net profit (loss)	6 378	1 483	5 501	1 289
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)	1,96	0,45	1,69	0,40

BALANCE SHEET				
Fixed assets	30 719	7 214	26 122	6 075
Current assets	23 893	5 611	18 280	4 251
Equity	38 115	8 950	33 343	7 754
Long-term liabilities	4 281	1 005	1 948	453
Short-term liabilities	12 216	2 869	9 111	2 119
Book value per share (PLN / EUR)	11,69	2,74	10,23	2,38

CASH FLOW STATEMENT				
Net cash flow from operating activities	5 461	1 269	8 461	1 983
Net cash flow from investing activities	-3 899	-906	-5 003	-1 173
Net cash flow from financing activities	-2 438	-567	-589	-138

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
01.01-31.12.2019	4,3018	4,2406	4,3891	4,2585
01.01-31.12.2018	4,2669	4,1423	4,3978	4,3000

*) 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):
• exchange rate applicable on 31 December 2019: 1 USD = 3,7977 PLN
• exchange rate applicable on 31 December 2018: 1 USD = 3,7597 PLN

(All amounts are expressed in PLN thousand, unless otherwise indicated)

D. Separate annual financial statement for the period from 1 January 2018 to 31 December 2018

General information

I. Entity's data

Business name:	LSI Software S.A.
Legal from:	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 S.A. is a leading Polish producer of software for retail and hospitality sectors as well as for cinema operators. The company also provides ERP (Enterprise Resource Planning) systems and software for managing recreational and sports facilities. The company's offer includes consulting services, implementation services, technical support and supply of specialized hardware solutions. The Issuer'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. LSI Software SA is a long-time partner of global companies such as Microsoft or Posiflex. This results in access to the most advanced technologies and specialized equipment used in the world.

The Company, as the leader of LSI Software Group, operates on the Polish and foreign markets, striving to expand into European and global markets.

II. Duration of an entity

The Company has a perpetual existence.

III. Presented periods

The separate financial statement contains data for the period from 1 January 2019 to 31 December 2019. Comparative data is presented as at 31 December 2018 for the balance sheet and for the period from 1 January 2018 to 31 December 2018 for the profit and loss account, statement of comprehensive income, the cash flow statement and the statement of changes in equity.

IV. The composition of Entity's managing and supervisory bodies as at 31 December 2019

Management Board:

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

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

In 2019 there were no changes in the composition of the Company's Management Board.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

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
Maciej Węgierski	-	Member of the Supervisory Board

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

In 2019 there were no changes in the composition of the Company's Supervisory Board.

V. Audit firm:

BDO Spółka z ograniczoną odpowiedzialnością sp. k.
ul. Postępu 12, 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

(All amounts are expressed in PLN thousand, unless otherwise indicated)

IX. Significant Shareholders

As at 27 June 2019, 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	966 080	966 080	83,99	2 430 400	92,94
Other shareholders	184 100	184 100	16,01	184 100	7,06
Total	**1 150 180**	**1 150 180**	**100,00**	**2 614 500**	**100,00**

X. Subsidiary undertakings:

- **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.

Note 59 presents detailed information that allows the assessment of the nature and effects of the merger, as well as the adjustments made in connection with the merger.

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. Approval of the financial statement for publication

This financial statement was approved for publication by the Company's Management Board on 22 May 2020.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Separate annual financial statement of LSI Software S.A.

Profit and loss account

	NOTE	01.01-31.12.2019	01.01-31.12.2018
Sales revenues	1,2	**46 791**	**42 229**
Revenues from sales of products		11 396	7 314
Revenues from sales of services		12 914	12 746
Revenues from sales of goods and materials		22 481	22 169
Cost of products, goods and materials sold	2,3	**37 921**	**32 669**
Manufacturing costs of products and services sold		22 421	18 350
Value of goods and materials sold		15 500	14 319
Gross profit (loss) on sales		***8 870***	***9 560***
Other operating income	4	1 647	1 825
Sales costs	1,2,3	1 279	1 888
General and administrative costs	1,2,3	3 798	3 565
Research and development expenditure		7 285	6 761
Other operating costs	4	142	366
Profit (loss) on operating activities		***5 298***	***5 566***
Financial income	5	1 628	491
Financial costs	5	280	106
Share in net profit (loss) of entities accounted for using the equity method		0	0
Profit (loss) before tax		***6 646***	***5 951***
Income tax	6	268	450
Net profit (loss) from continuing operations		***6 378***	***5 501***
Profit (loss) on discontinued operations	7	0	0
Net profit (loss)		***6 378***	***5 501***
Net profit (loss) per share (in PLN)	8	**1,96**	**1,69**
Basic for the financial period		1,96	1,69
Diluted for the financial period		1,96	1,69
Net profit (loss) per share from continuing operations (in PLN)			
Basic for the financial period		1,96	1,69
Diluted for the financial period		1,96	1,69
Net profit (loss) per share from discontinued operations (PLN)		**0,00**	**0,00**

Łódź, 22 May 2020

Signatures of Members of the Management Board:

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

Signature of a person preparing the financial statement:

Bartłomiej Grduszak	*Dariusz Górski*
President of the Management Board	*Chief Accountant*

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Statement of comprehensive income

	NOTE	01.01-31.12.2019	01.01-31.12.2018
Net profit (loss)		***6 378***	***5 501***
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			
Income tax related to components of other comprehensive income			
Total comprehensive income	10,11	***6 378***	***5 501***

Łódź, 22 May 2020

Signatures of Members of the Management Board:

Bartłomiej Grduszak
President of the Management Board

Michał Czwojdziński
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

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Statement of financial position

ASSETS	NOTE	31.12.2019	31.12.2018 (restated data)
Fixed assets		**30 719**	**26 122**
Fixed tangible assets	13	8 957	7 507
Intangible assets	14	12 220	11 516
Right-of-use asset	13	2 344	0
Investment property	15	0	864
Investments in associates	16	5 937	5 436
Financial assets available for sale	18	0	0
Other financial assets	20, 39	0	0
Deferred tax assets	6	1 261	799
Other fixed assets	17	0	0
Current assets		**23 893**	**18 280**
Inventory	21	4 589	2 695
Trade receivables	23	13 685	8 525
Current income tax receivables		19	79
Other receivables	24	909	1 109
Financial assets available for sale	18	0	0
Financial assets measured at fair value through profit or loss	19	0	0
Other financial assets	20, 39	0	235
Prepayments	25	238	239
Cash and cash equivalents	26	4 453	5 398
Assets classified as held for sale		**0**	**0**
TOTAL ASSETS		**54 612**	**44 402**

Łódź, 22 May 2020

Signatures of Members of the Management Board:

Bartłomiej Grduszak — *President of the Management Board*

Michał Czwojdziński — *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*

(All amounts are expressed in PLN thousand, unless otherwise indicated)

LIABILITIES	NOTE	31.12.2019	31.12.2018 (restated data)
Equity		**38 115**	**33 343**
Share capital	27	3 261	3 261
Statutory capital reserve	28	27 103	23 208
Own shares	29	-609	-609
Other reserves	30	2 060	2 060
Undistributed financial result	31	-78	-78
Financial result of the current period		6 378	5 501
Long-term liabilities		**4 281**	**1 948**
Credits and loans	32	790	1 080
Lease liabilities and other financial liabilities	33,39	2 630	422
Other long-term liabilities	34	0	0
Deferred income tax provision	6	860	445
Accruals	40	0	0
Provisions for retirement and similar benefits	41	1	1
Other provisions	42	0	0
Short-term liabilities		**12 216**	**9 111**
Credits and loans	32	602	468
Lease liabilities and other financial liabilities	33,39	708	543
Trade liabilities	35	8 666	5 451
Current income tax liabilities		0	0
Other liabilities	36	2 093	2 461
Accruals	40	46	89
Provisions for retirement and similar benefits	41	2	1
Other provisions	42	99	98
Liabilities directly related to assets classified as held for sale		**0**	**0**
TOTAL LIABILITIES		**54 612**	**44 402**

Łódź, 22 May 2020

Signatures of Members of the Management Board:

Bartłomiej Grduszak — *President of the Management Board*

Michał Czwojdziński — *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*

(All amounts are expressed in PLN thousand, unless otherwise indicated))

Statement on changes in equity

	Share capital	Statutory capital reserve	Own shares	Other reserves	Undistributed financial result	Financial result of the current period	Equity, total
12 months ended 31.12.2019							
Equity as at 1 January 2019	**3 261**	**23 208**	**-609**	**2 060**	**5 423**	**0**	**33 343**
Changes in accounting policies	0	0	0	0	0	0	0
Corrections of errors in previous periods	0	0	0	0	0	0	0
Equity after corrections	**3 261**	**23 208**	**-609**	**2 060**	**5 423**	**0**	**33 343**
Net profit distribution	0	3 895	0	0	-3 895	0	0
Purchase of own shares	0	0	0	0	0	0	0
Contributions (payments) in the form of own shares	0	0	0	0	0	0	0
Transfer between reserves	0	0	0	0	0	0	0
Dividend payment	0	0	0	0	-1 606	0	-1 606
Total comprehensive income	0	0	0	0	0	6 378	6 378
Equity as at 31 December 2019	**3 261**	**27 103**	**-609**	**2 060**	**-78**	**6 378**	**38 115**
12 months ended 31.12.2018							
Equity as at 1 January 2018	**3 261**	**18 353**	**-150**	**2 060**	**4 855**	**0**	**28 379**
Changes in accounting policies	0	0	0	0	0	0	0
Corrections of errors in previous periods	0	0	0	0	-78	0	-78
Equity after corrections	**3 261**	**18 353**	**-150**	**0**	**4 777**	**0**	**28 301**
Net profit distribution	0	4 855	0	2 060	-4 855	0	0
Purchase of own shares	0	0	-459	0	0	0	-459
Contributions (payments) in the form of own shares	0	0	0	0	0	0	0
Transfer between reserves	0	0	0	0	0	0	0
Dividend payment	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	0	5 501	5 501
Equity as at 31 December 2018	**3 261**	**23 208**	**-609**	**2 060**	**-78**	**5 501**	**33 343**

Łódź, 22 May 2020
Signatures of Members of the Management Board:

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

Signature of a person preparing the financial statement:

Bartłomiej Grduszak	*Dariusz Górski*
President of the Management Board	*Chief Accountant*

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Cash flow statement

	01.01 - 31.12.2019	01.01 - 31.12.2018
OPERATING ACTIVITIES		
Profit (loss) before tax	**6 646**	**5 951**
Total adjustments	**-1 021**	**3 027**
Amortisation and depreciation	4 362	3 372
Foreign exchange gains/losses	68	2
Interests and share in profits (dividends)	-973	-199
Profit / loss on investing activities	-77	-73
Change in reserves	417	-67
Change in inventory	-1 895	37
Change in receivables	-4 922	-417
Change in liabilities excluding credits and loans	2 846	2 259
Change in other assets	-828	-1 180
Other adjustments arising in connection with operating activities	-19	-707
Cash on operating activities	**5 625**	**8 978**
Interests paid	0	0
Income tax (paid) / reimbursed	-164	-517
A. Net cash flow from operating activities	**5 461**	**8 461**
INVESTING ACTIVITIES		
Inflows	**1 515**	**460**
Disposal of intangible assets and fixed tangible assets	107	140
Disposal of investments in immovable property	0	0
Disposal of financial assets	0	0
Repayment of long-term loans granted	215	25
Other investment inflows	1 193	295
Outflows	**5 414**	**5 463**
Acquisition of intangible assets and fixed tangible assets	4 911	3 958
Acquisition of investments in immovable property	0	0
Acquisition of financial assets	501	1 498
Other investment outflows	2	7
B. Net cash flow from investing activities	**-3 899**	**-5 003**
FINANCING ACTIVITIES		
Inflows	**639**	**2 365**
Net inflows from issues of shares and other equity instruments and from capital contributions	0	0
Credits and loans	400	961
Issue of debt securities	0	0
Other financial inflows	239	1 404
Outflows	**3 077**	**2 954**
Acquisition of own shares	0	457
Dividends and other payments to owners	1 606	0
Profit distributions other than payments to owners	0	0
Repayment of credits and loans	556	1 667
Redemption of debt securities	0	0
For other financial liabilities	0	0
Financial lease payments	766	727
Interests	149	103
Other financial outflows	0	0
C. Net cash flow from financing activities	**-2 438**	**-589**
D. Total net cash flow (A + B + C)	**-876**	**2 869**
E. Balance sheet change in cash, including:	**-944**	**2 867**
– Change in cash due to foreign exchange differences	-68	-2
F. Cash at the beginning of the period	**5 398**	**2 529**
G. Cash at the end of period (F + D)	**4 522**	**5 398**

Łódź, 22 May 2020

Signatures of Members of the Management Board:

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

Signature of a person preparing the financial statement:

Bartłomiej Grduszak	*Dariusz Górski*
President of the Management Board	*Chief Accountant*

Additional information to the annual financial statement

I. Compliance with the International Financial Reporting Standards

This annual 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 financial statement for the year 2019, the Entity applied the same accounting policies as those adopted for the preparation of the financial statement for the year 2018, 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 2019. Furthermore, in execution of Resolution no. 36/2018 of the Ordinary General Meeting of Shareholders of LSI Software S.A. of 29 June 2018, as of 1 January 2018 the Company ceased to prepare the Issuer's separate financial statements in accordance with the provisions of the Accounting Act of 29 September 1994, replacing them with the International Accounting Standards and International Financial Reporting Standards.
This report has been prepared for the period in which the comparative period was covered by the first separate financial statement prepared in accordance with IFRS. In preparing this report, the company applied for the comparative period IFRS 1 "First-time Adoption of International Financial Reporting Standards". In order to explain how the transition from the Accounting Act to IFRS affected the financial situation, operating results and cash flows, we point out that the value of the company's equity as at 01.01.2017 and 31.12.2017 in connection with the change in the applied standards was changed as a result of a different presentation of the company's own shares. In turn, as at 01.01.2018 the presentation of the supplementary capital was changed, which also recognizes the result of revaluation of the property from previous years. The presentation of development works and subsidies in the statement of financial position, which are presented in assets, has also changed. The amount of the subsidy is deducted from the value of the asset that was financed in whole or in part. However, the value of total income for the period from 01.01.2017 to 31.12.2017 and cash flows did not change.

A detailed list of the above changes is presented in the Additional Information in section V. "Changes in accounting principles (policy)". In 2019, the Company 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 2019.

II. Going concern assumption and comparability of financial statements

The annual 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 2019. As at the date of signing the financial statement hereof, the Management Board of the Company does not identify any facts or circumstances that would indicate a threat to the continued operations of the Company 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 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.

In the opinion of the Board, the effects of the spread of Covid-19 coronavirus and actions taken by the Polish authorities in order to prevent the epidemic will have a negative impact on the operating activity of the Issuer and the financial results of the Company for the first and subsequent quarters of 2020. The measures taken by the individual countries in which the Company conducts its operations will also significantly affect the level of revenue from foreign sales.

LSI Software S.A. has sufficient financial resources to continue its operations, including settlement of current liabilities. The company maintains a stable financial position, enabling a balanced approach to the challenges stemming from the ongoing crisis, and will constantly monitor the developments by adapting its business operations to the changing market environment.

However, in the event of a prolonged pandemic and its negative impact on the global economy, this situation may adversely affect the organisational and financial performance of the Company, and therefore the Issuer has effectively undertaken efforts to obtain various forms of public aid available, among others, as part of a package of solutions prepared by the government.

A detailed description of the threats associated with the spread of Covid-19 coronavirus is described in note 55.

Until the date of preparation of the annual financial statement for 2019, there were no events which have not but should have been included in the books of account for the reporting period. In the reporting period, there were no significant corrections related to previous years' events included in the statement for the current period.

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

The 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 financial statement hereof is presented in PLN ("PLN") and all figures, unless otherwise indicated, are expressed in thousands of PLN.

The accounting principles (policy) presented below were applied to all periods presented in the Company's financial statements, with consideration of the changes introduced to the accounting policy and the adoption of IFRS for the first time in 2018. However, comparative data were not reclassified in connection with the introduction of IFRS 16 Leases.

Financial instruments

Financial instruments other than derivative instruments

Loans, receivables and deposits are recognised when they occur. All other financial assets (including those measured at fair value through profit or loss) are recognised on trade date, which is the date on which the Company becomes a party to a mutual obligation in respect of a given financial instrument. The Company ceases to recognise a financial asset when the contractual rights to receive cash flows from this asset expire or when the rights to receive cash flows from a financial asset are transferred in a transaction transferring substantially all the significant risks and benefits resulting from their ownership. Each share in the transferred financial asset which is created or held by the Company is recognised as an asset or liability.

Financial assets and liabilities are offset and recognised in the statement of financial position in the net amount only in the event that the Company has a legally enforceable right to offset certain financial assets and liabilities or intends to settle a given transaction in the net amount of offset financial assets and liabilities or intends either to settle on a net basis or to realise the financial asset and settle the financial liability simultaneously. The Company classifies financial instruments other than derivative financial assets into the following categories: financial assets at fair value through profit or loss, financial assets held to maturity, loans and receivables and financial assets available for sale.

Financial assets at fair value through profit or loss

Financial assets are classified as an investment at fair value through profit or loss if they are held for trading or designated as measured at fair value through profit or loss on initial recognition. Financial assets are classified as measured at fair value through profit or loss if the Company actively manages such investments and makes purchase and sale decisions based on their fair value.

Transaction costs associated with an investment are recognised in profit or loss when incurred. Financial assets measured at fair value through profit or loss are measured at fair value, changes in which are recognised in profit or loss of the current period. All profits and losses related to these investments are recognized in profit or loss of the current period.

Financial assets measured at fair value through profit or loss include equity securities that would otherwise be classified as held for sale.

Financial assets held to maturity
If the Company has the intention and ability to hold debt securities to maturity, the Company classifies them as held-to-maturity financial assets. Financial assets held to maturity are initially recognized at fair value increased by directly attributable transaction costs.

Financial assets held to maturity at a later date are measured at amortised cost using the effective interest rate method, less any impairment losses. Sale or reclassification of a greater than insignificant amount of financial assets held to maturity, at a date other than close to the maturity date, causes the Company to reclassify all investments held to maturity to investments available for sale and it also results in the fact that until the end of the financial year and for two consecutive financial years, the Company cannot recognize the purchased investments as financial assets held to maturity. Bonds are classified as financial assets held to maturity.

Loans and receivables
Loans and receivables are financial assets with fixed or definable payments that are not quoted on an active market. Such assets are initially recognised at fair value increased by directly attributable transaction costs. Loans and receivables are measured at a later date at amortised cost using the effective interest rate method, less any impairment losses. Loans and receivables include cash and cash equivalents and trade receivables, including receivables arising from the provision of licensed services.

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.

Contracts for licensed services
The Company recognises financial assets arising from contracts for licensed services when it has an unconditional contractual right to receive cash or other financial assets from or upon request of the grantor of the license for the construction or improvement of infrastructure.

These assets are initially recognised at fair value. Measurement at a later date is carried out at amortised cost. If the Company receives remuneration for construction services partially in the form of financial assets and partially in the form of intangible assets, then initially each component of remuneration is recognized separately according to the fair value of remuneration.

Financial assets available for sale
Financial assets available for sale include financial assets other than derivative financial assets designated as available for sale or not classified in any of the above categories.

After initial recognition, financial assets available for sale are measured at fair value and the effects of a change in fair value, other than impairment losses and foreign exchange differences on debt instruments available for sale, are recognised in other comprehensive income and presented in the fair value reserve in equity. As at the date of exclusion of investments from the accounting books, the accumulated value of profits or losses recognized in equity is transferred to profit or loss of the current period. Financial assets available for sale include equity and debt securities.

Non-derivative financial liabilities
The issued debt instruments and subordinated liabilities are recognised by the Company as they occur. All other financial liabilities, including liabilities measured at fair value through profit or loss, are recognised as at the transaction date, which is the date on which the Company becomes a party to an agreement obliging to issue a financial instrument. The Company derecognises a financial liability when the liability is repaid, cancelled or becomes past due.

Financial assets and liabilities are offset and recognised in the statement of financial position in the net amount only in the event that the Company has a legally enforceable right to offset certain financial assets and liabilities or intends to settle a given transaction in the net amount of offset financial assets and liabilities or intends either to settle on a net basis or to realise the financial asset and settle the financial liability simultaneously.

The Company classifies non-derivative financial liabilities into the “other financial liabilities” category. Such financial liabilities are initially recognised at fair value increased by directly attributable transaction costs. After initial recognition, such liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities include bank borrowings, loans and other debt instruments, overdrafts, trade and other liabilities. Overdrafts that have to be repaid at the bank's request and which constitute an element of the Company's cash management are classified as cash and cash equivalents for the purpose of preparing the cash flow statement.

Equity

Ordinary shares
Ordinary shares are recognised in equity. Costs directly attributable to the issue of ordinary shares, adjusted for tax effects, are deducted from equity.

Acquisition of own (Treasury) shares
In the case of acquisition of own shares, the amount of payment on this account together with the direct costs of the transaction, adjusted for tax effects, is recognized as a decrease in equity. Acquired own shares are disclosed as a separate item of equity. When sold or reissued, the amounts received are recognized as an increase in equity, and the resulting surplus or deficit arising from the transaction is recognized as the share premium.

Compound financial instruments
Compound financial instruments other than derivative instruments issued by the Company include bonds with the right of conversion into shares on the part of the holder, for which the number of issued shares does not change with the change of their fair value.
The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component of a convertible bond is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Transaction costs related to the issue of compound financial instruments are allocated to the liability and equity components proportionally to their initial value. After initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The measurement of the equity component of a compound financial instrument is not changed after initial recognition. Interests and profits and losses related to the financial liability are recognized in profit or loss of the current period. At the time of conversion, the financial liability is transferred to equity; conversion does not result in recognition of profit or loss.

Derivative financial instruments, including hedge accounting
The Company uses derivative financial instruments for the purposes of hedging its foreign exchange and interest rate risks.

Embedded derivatives are separated from the host contract and disclosed separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms and conditions as an embedded derivative would meet the definition of a derivative and a hybrid (combined) instrument is not measured at fair value through profit or loss. At the time of initial designation of a derivative financial instrument as a hedging instrument, the Company formally records the correlation between the hedging instrument and the hedged item. This documentation covers the risk management objective and strategy for establishing the hedge and the hedged risk, as well as the methods to be used by the Company to assess the effectiveness of the hedging instrument. The Company evaluates, both at inception and on an ongoing basis, whether it can be reasonably expected that the hedging instruments will remain “highly effective” in offsetting changes in the fair value or cash flows of each item hedged against the specific risk and whether the actual level of each hedge is within a range of 80-125%.

Cash flow hedges from future transactions are used for future highly probable transactions bearing the risk of changes in cash flows, the effects of which would be recognised in profit or loss of the current period. Derivative financial instruments are initially recognised at fair value. Transaction costs are recognised when incurred in profit or loss of the current period. After initial recognition, the Company measures derivative financial instruments at fair value, while profits and losses resulting from changes in fair value are recognised in the manner specified below.

Cash flow hedges
If a derivative financial instrument is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset, a recognised liability or a highly probable forecast transaction that could affect profit or loss of the current period, the portion of the profit or loss associated with the hedging instrument that is an effective hedge shall be recognised in other comprehensive income and presented, as a separate hedge item, in equity. The ineffective portion of changes in the fair value of a derivative instrument is recognised in profit or loss of the current period.

When an item is hedged with a non-financial asset, the amount accumulated in equity is charged to the carrying amount of the asset when the asset is recognised. In other cases, the amount accumulated in equity shall be transferred to profit or loss for the same period in which the hedged item affects profit or loss. If a hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, dissolved, exercised or its designation is changed, then the Company ceases to apply hedge accounting principles. If the planned transaction is not expected to be executed, profits or losses recognized in equity are transferred to profit or loss of the current period.

Separate embedded derivatives
Changes in the fair value of the separate embedded derivatives are recognised in profit or loss of the current period.

Other derivatives not held for trading
When a derivative instrument has not been designated as a hedging instrument, any change in its fair value is recognised in profit or loss of the current period.

Fixed tangible assets

Recognition and measurement
Components of tangible fixed assets are recognized in the books at purchase price or manufacturing cost less depreciation write-downs and impairment losses. The purchase price includes costs directly related to the purchase of an asset. The manufacturing costs of assets include costs of materials, direct remunerations and other costs directly related to bringing the component of assets to a useable condition.

The manufacturing cost of a component of fixed assets and fixed assets under construction includes all the costs incurred during the period of its construction, assembly, adaptation and improvement incurred until the date when the component is accepted for use (or until the end of the reporting period if the component has not yet been put into use). Manufacturing cost also includes, where required, preliminary estimates of the costs of disassembling and removing components of tangible fixed assets and the costs of renovating the site on which they will be located.

The purchase price may also be adjusted by, transferred from equity, profits or losses on transactions hedging the cash flows from the purchase of fixed tangible assets in a foreign currency. Purchased software that is essential to the proper functioning of the related device is capitalised as part of that device.

When a specific component of fixed tangible fixed assets consists of separate and significant components with different useful lives, those components shall be accounted for as separate assets. Profit or loss on the disposal of a component of fixed tangible assets is determined on the basis of the comparison of revenues from the disposal with the carrying value of the sold assets and is recognized in the net amount in the profit or loss of the current period in “other revenues” or “other costs”. When the sale refers to the assets subject to earlier revaluation, the appropriate amount in the revaluation reserve is transferred to “retained earnings”.

Reclassification to investment property
If a property is no longer used for the Company's own purposes and is no longer held for investment, the property is measured at fair value and reclassified to investment property.

Any profits arising from fair value measurement are recognised in profit or loss of the current period to the amount in which they reverse previous impairment losses of a given property. The remaining part of the profit is recognized in other comprehensive income and disclosed in the revaluation reserve. Any losses are recognised in profit or loss of the current period.

Expenditures incurred at a later date
The later incurred costs of replaced parts of a component of tangible fixed assets which can be reliably estimated and it is probable that the Company will achieve economic benefits related to the replaced components of tangible fixed assets are subject to activation. The carrying amount of the removed parts of a component of tangible fixed assets is excluded from the accounting records. Expenditures incurred in connection with the current maintenance of components of tangible fixed assets are recognized in the profit or loss of the current period at the moment they are incurred.

Depreciation and amortisation
The amount of depreciation write-downs is determined based on the purchase price of a given asset less its residual value.

The Company also evaluates the useful life of significant components of individual assets and if the component's useful life is different from the useful life of the other components of the asset, the component is depreciated separately.

Depreciation cost is recognized in profit or loss of the current period using the straight-line method in relation to the estimated useful life of each component of tangible fixed assets. The components of assets used under a lease or other similar agreement are depreciated over the shorter of the two periods: the lease term or the useful life, unless the Company has reasonable assurance that it will obtain ownership right before the lease term expires. Land is not depreciated.

In the financial statement for the reporting period and comparative periods, the Company assumes the following useful lives for particular categories of tangible fixed assets:

- Buildings and structures 10 - 40 years
- Plant and machinery 3 - 10 years
- Means of transport 4 - 7 years
- Other fixed assets 3 - 10 years

The correctness of the applied useful lives, depreciation methods and residual values of tangible fixed assets is verified at the end of each reporting period and adjusted if necessary.
Estimates in respect of certain items of tangible fixed assets were verified at the end of the presented period.

<u>Intangible assets</u>

Goodwill
Goodwill arising from the acquisition of subsidiaries is recognised as a component of intangible assets.

Measurement after initial recognition
After initial recognition, goodwill is disclosed at purchase price less accumulated impairment losses. In the case of investments measured under the equity method, goodwill is recognized in the carrying amount of the investment, and an impairment loss on that investment is not allocated to any asset, including goodwill, which forms part of the investment's value.

Research and development
Expenditures incurred on development works, the effects of which are applied in the development or production of a new or significantly improved product, may be subject to activation if the production of a new product (or process) is technically possible and economically justified and the Company has the technical, financial and other resources necessary to complete the development works.

Costs subject to activation include: costs of materials, third party services directly related to the performance of works, justified part of costs indirectly related to the creation of a component of intangible assets and activated costs of external financing. Other development costs, including salaries of employees directly involved in development works, are recognized in profit or loss of the current period as they are incurred.

Development costs are recognised as intangible assets at their purchase price or manufacturing cost less accumulated depreciation write-downs and impairment losses.

Contracts for licensed services
The Company recognises intangible assets resulting from the concluded contracts for licensed services if it has the right to charge fees for the use of infrastructure related to the licensed services. Intangible assets received in exchange for construction and subsequent improvement of the subject of the contract under a contract for licensed services are initially recognised at fair value.

After the initial recognition, intangible assets are disclosed according to the purchase price or manufacturing cost, which includes activated costs of external financing less accumulated depreciation write-downs and impairment losses.

Other intangible assets
Other intangible assets acquired by the Company with a defined period of economic useful life are disclosed at their purchase price less depreciation write-downs and impairment losses.

Expenditures incurred at a later date
Later expenditures on components of existing intangible assets are subject to activation only when they increase future economic benefits related to a given component. Other expenditures, including expenditures on self-developed trademarks, goodwill and brand are recognized in profit or loss of the current period at the moment they are incurred.

Depreciation and amortisation
Depreciation write-downs are calculated based on the purchase price of a given component of the assets, less its residual value. Depreciation cost is recognised in profit or loss on a straight-line basis over the estimated useful life of an intangible asset, other than goodwill, from the time of declaring its suitability for use.
In the financial statement for the current period and comparative periods, the Company assumes the following useful lives for particular categories of intangible assets:

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

The appropriateness of the applied useful lives, depreciation methods and residual values of intangible assets is reviewed at each balance sheet date and, where appropriate, adjusted.

The estimated useful economic life of intangible assets in the case of a contract for the provision of licensed services is determined by the duration of the license, during which the Company may charge third parties for the use of infrastructure.

Investment property
Investment property is held for the purpose of generating rental income, income from an increase in its value or both. Investment property is not held for sale in the normal course of business, nor for use in the production process, supply of goods or services, nor for administrative purposes.

Investment property is measured at fair value at inception and at each balance sheet date. All profits and losses resulting from the change in fair value are recognized in profit or loss of the current period.
The purchase price includes the purchase price of a component of property and costs directly related to the purchase of investment property.

The manufacturing cost of investment property includes the costs of materials and remuneration of employees directly involved in its manufacturing and other costs directly related to adapting the investment property to the intended use, as well as borrowing costs.

If there is a change in the 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 becomes an assumed cost for future recognition.

Lease
Lease is a contract that transfers the right to use an asset for a certain period of time in exchange for remuneration. At the date of commencement of the lease, the Company recognizes a right-of-use asset and a lease liability. The leased asset is depreciated from the month of its readiness for use, through the lease period or the estimated period of use.

Right-of-use assets
An entity recognizes in its balance sheet a right-of-use-asset at the date of commencement of the lease (i.e. at the date when the leased asset is available for use by the Company). The right-of-use assets are initially recognised at cost, and then reduced by depreciation charges and possible impairment losses, and adjusted for the translation of the lease liability accordingly. The cost of a right-of-use asset includes the amount of the initial valuation of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, initial direct costs incurred by the lessee.

If the lease transfers ownership of the underlying asset to the Company as the lessee at the end of the lease term, or if the cost of a right-of-use asset includes the fact that the entity will exercise its call option, the lessee depreciates the right-of-use asset from the commencement date until the end of the useful life of the underlying asset. Otherwise, the Company depreciates the right-of-use asset from the date of commencement of the lease until the end of the period of use of this asset or until the end of the lease period, whichever is the earlier.

Short-term contracts and low-value assets
The Company does not recognize a lease in the case of lease contracts concluded for a period shorter than 12 months from the date of commencement of the lease. The Company also applies a practical exception referring to the lease of low-value assets - in this case the lease payments are recognized in the costs of the period to which they relate. Neither the right-of-use asset nor the corresponding financial liability is recognized in this case.

Lease liabilities
At the commencement date of the lease, the Company determines the lease liability at the present value of the lease payments outstanding at that date. Lease payments are discounted by the Company using the marginal interest rate set at the commencement of the lease, relevant to the lease term and currency. Lease payments include fixed payments (including substantially fixed lease payments) less any lease incentives payable; variable lease payments that depend on an index or rate, the amount of the guaranteed residual value and the price at which the call option is exercised (if there is reasonable assurance that the Company will exercise this option) and penalties for termination of the lease (if there is reasonable assurance that the Company will exercise this option). Variable lease payments not based on an index or rate are recognised immediately as an expense in the period in which the event or condition triggering the payment occurs. In subsequent periods, the lease liability is reduced by repayments made and increased by accrued interests at a fixed rate over the lease term equal to the marginal interest rate determined at the date of recognition of the lease. If the lease agreement is modified, the period or amount of the substantially fixed lease payments is changed or there is a change in the judgment on the exercise of the call option of the leased asset, then the lease liability is recalculated to reflect this change.

Inventory
Components of inventory are valued at the purchase price or manufacturing cost not higher than the net realizable value. The value of inventory is determined using the first-in, first-out method. The purchase price includes the acquisition price increased by the costs directly related to the acquisition and adaptation of the asset to the useable condition or marketable condition.

In the case of finished goods and work in progress, the costs include an appropriate portion of indirect manufacturing costs calculated on the assumption of normal use of production capacity.

The purchase price of inventory may also be adjusted for, transferred from equity, gains or losses on transactions hedging cash flows related to foreign purchases of inventory in a foreign currency. The net realizable value is the difference between the estimated selling price made in the course of business and the estimated costs of completion and the costs necessary to effect such sale.

Construction work in progress
Construction work in progress corresponds to the uninvoiced amount that the Company expects to receive from the ordering party for the work performed. They are valued at the amount of costs incurred, increased by the appropriate profit margin less the total of issued invoices and recognised losses.

The costs include all costs relating directly to specific contracts and an appropriate portion of the Company's fixed and variable overheads calculated under the assumption of normal production capacity utilisation. Construction contracts in progress are presented in the statement of financial position as a component of trade and other receivables. If the value of issued invoices exceeds the value of costs incurred plus recognised profit, the surplus is recognised in the statement of financial position as deferred income.

Impairment losses on assets

Non-derivative financial assets
At the end of each reporting period, the Company assesses whether there is any objective evidence of impairment of financial assets other than those measured at fair value through profit or loss. A financial asset is deemed to be impaired if, after its initial recognition, objective evidence of an event that may have a negative, reliably estimated impact on the value of future cash flows related to the asset has occurred. Objective evidence of impairment of financial assets (including equity instruments) includes non-payment or delay in repayment of debt by the debtor, restructuring of debt of the debtor to which the Company has agreed for economic or legal reasons arising from the debtor's financial difficulties and which the Company would not otherwise have granted, circumstances evidencing a high probability of the debtor's or issuer's bankruptcy, unfavourable changes in the balance of payments from debtors and issuers within the Company, economic conditions conducive to breach of contract terms, discontinuance of an active market for a given financial asset.

Moreover, in the case of investments in equity instruments, the objective evidence of impairment of financial assets is a significant or prolonged decline in the fair value of such investment below its purchase price.

Granted loans and receivables and held-to-maturity investments
The Company assesses evidence of impairment of loans granted, receivables or held-to-maturity investments both at the level of an individual asset and in relation to groups of assets. In the case of individually significant receivables and held-to-maturity investments, impairment tests of individual assets are carried out.

All individually significant loans granted, receivables and held-to-maturity investments for which no evidence of impairment has been identified based on individual assessment are then subject to group assessment to determine whether there has been any other unidentified impairment.

Loans granted, receivables and held-to-maturity investments of individually insignificant value are assessed collectively for impairment, broken down by companies with similar risk characteristics.

When assessing impairment for groups of assets, the Company uses historical trends to estimate the probability of overdue payments and the moment of payment as well as the value of incurred losses, adjusted by the Management Board's estimates of whether the current economic and loan conditions indicate that the actual level of losses should significantly differ from the level of losses resulting from the assessment of historical trends.

Impairment of financial assets measured at amortised cost is estimated as the difference between their book value and the present value of estimated future cash flows discounted at the initial effective interest rate. Any losses are recognised in profit or loss and represent an impairment loss on loans and receivables and held-to-maturity investments, with the Company continuing to charge interest on the revalued assets.

If subsequent circumstances (e.g. payment by the debtor) indicate that there is no longer any indication of impairment, then the reversal of the impairment loss is recognised in profit or loss of the current period.

Financial assets available for sale
Impairment of available-for-sale financial assets is recognised by transferring the cumulative loss recognised in the fair value reserve to the current period's profit or loss. The cumulative loss in question is calculated as the difference between the purchase price less any principal payments received and the change in carrying amount resulting from the application of the effective interest rate method, and the fair value. In addition, the difference is reduced by impairment losses previously recognised in profit or loss of the current period. Changes in impairment losses related to the application of the effective interest rate method are recognised as interest income.

If, in subsequent periods, the fair value of impaired debt securities classified as available for sale increases and the increase in fair value can be objectively attributed to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, with the effects of the reversal relating to the current period's profit or loss. In the case of equity instruments available for sale, the reversal of the impairment loss is recognised in other comprehensive income.

Non-financial assets
The carrying amount of non-financial assets other than investment property, inventory and deferred income tax assets is assessed at the end of each reporting period to determine whether there is any indication of impairment.

If such indications occur, the Company estimates the recoverable amount of individual assets. The recoverable amount of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use is estimated each year at the same date. An impairment loss is recognised if the carrying amount of an asset or a related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of assets or cash-generating units (CGUs) is defined as the greater of their net realizable value and value in use. In assessing value in use, future cash flows are discounted using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the asset or the CGU.

For the purpose of impairment testing, assets are grouped into the smallest identifiable groups of assets generating cash inflows that are largely independent of other assets or the CGU. The Company assesses the impairment of goodwill by grouping the cash-generating units so that the organizational level, not higher than a separate operating segment on which this assessment is made, reflects the lowest organizational level on which the Company monitors the goodwill for internal purposes.

For the purpose of impairment tests, goodwill acquired in a business combination is allocated to those cash-generating units for which synergy effects from the combination are expected to be obtained.

The Company's common (corporate) assets do not generate separate cash inflows and are used by more than one CGU. Common assets are allocated to CGU on the basis of uniform and reasonable assumptions and are subject to impairment tests as part of the tested CGUs to which they are assigned. Impairment losses are recognised in profit or loss of the current period. Impairment of a cash-generating unit is first recognized as a decrease in the goodwill allocated to that unit (units) and then as a decrease in the book value of other assets of that unit (units) on a pro rata basis. An impairment loss on goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period whether there is any indication that the goodwill may be impaired or reversed.

An impairment loss is reversed if there has been a change in the estimates applied to determine the recoverable amount. An impairment loss is reversed only up to the amount of the initial value of the asset less depreciation write-downs that would have been disclosed if the impairment loss had not been recognised

Fixed assets held for sale or distribution

Fixed assets (or assets and liabilities being the Company held for sale), with regard to which the Company expects that they will generate benefits as a result of sale or distribution, and not through their further use, are classified as held for sale or distribution. Immediately before reclassification of assets held for sale or distribution to the Company, these assets (or components of the Company held for sale) are remeasured in accordance with the Company's accounting principles. Subsequently, assets or companies held for sale are recognised at the lower of their carrying amount or fair value less costs to sell.

Any impairment loss on components of the Company held for sale is recognised first as a decrease in goodwill and then as a decrease in the carrying amount of other components on a pro rata basis, provided that the impairment does not affect the value of inventory, financial assets, deferred income tax assets, employee benefit assets, investment property or biological assets, which are still measured in accordance with the accounting principles of the Company.

Impairment loss recognized at initial classification as held for sale or distribution is recognized in profit and loss of the current period.

This also applies to gains and losses resulting from subsequent changes in value. Any gains on fair value measurement are recognised only to the extent of previously recognised impairment losses. Intangible assets and tangible fixed assets classified as available-for-sale or distribution are not depreciated. In addition, after the investments accounted for using the equity method are classified as available-for-sale or distribution, their recognition under this method is discontinued.

Employee benefits

Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions to a separate entity and will have no legal or constructive obligation to pay any additional contributions.

The obligation to make contributions to a defined contribution pension plan is recognised as the cost of employee benefits and charged to the profit or loss for the period in which the employees rendered their services.

Prepaid amounts are recognised as an asset if such prepayment will lead to a reduction in future payments or a refund. Contributions due under a defined contribution plan that are due in a period exceeding 12 months after the end of the period in which the employees render the related services are discounted to their present value.

Employee defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net liability under a defined benefit plan is estimated for each plan separately by determining the amount of future benefits to which employees have become entitled by carrying out their work in the current and prior periods. Such benefits are discounted for the purpose of determining their present value. Any unrecognised costs of past employment and the fair value of plan assets are deducted. The discount rate is determined on the basis of rates of return on highly rated corporate bonds (occurring at the end of the reporting period), which have maturity dates approximating to the terms of the Company's liabilities and are denominated in the same currency as the benefits are expected to be paid.

Valuation of benefits is carried out annually by a qualified actuary using the projected unit credit method. If the estimation results in a surplus in the Company's defined benefit plan, it is recognised in the amount limited to the sum of all unrecognised past employment costs and the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. In order to estimate the present value of economic benefits, the minimum funding requirements applicable to the Company's plan should be considered.

Economic benefits are available to the Company if they are realisable during the life of the plan or when the plan is settled. If the work in subsequent years will lead to a materially higher level of benefits than in previous years, the value of the increased benefits is recognized on a straight-line basis over the average period of acquiring rights to benefits in the profit or loss of the current period. If the benefit rights are vested immediately, the cost is recognised immediately in profit or loss.

The Company recognises all actuarial gains and losses under defined benefit plans in other comprehensive income and all costs related to defined benefit plans in personnel costs in the profit or loss of the current period.

The Company recognises profits and losses resulting from the limitation or settlement of a defined benefit plan at the moment of limitation or settlement. A profit or loss on a limitation includes any changes in the fair value of the plan assets, a change in the present value of the defined benefit plan and any actuarial gains and losses, as well as past employment costs which had not been previously recognised.

Other long-term employee benefits
The Company's net liabilities due to long-term employee benefits other than pension schemes represent the value of future benefits to which employees have acquired the rights in exchange for their work in the current and previous periods.

The value of these benefits is discounted to determine their present value, and then reduced by the fair value of the plan assets. The discount rate is determined on the basis of rates of return on highly rated corporate bonds (occurring at the end of the reporting period), which have maturity dates approximating to the terms of the Company's liabilities and are denominated in the same currency as the benefits are expected to be paid. Valuation of benefits is carried out with the use of the projected unit credit method. Actuarial gains and losses are recognised in profit or loss of the period in which they arose.

Termination benefits
Termination benefits are recognised as an expense when the Company has a present obligation that cannot be avoided in practice, arising from a detailed and formalised plan for terminating the employment relationship before the employees reach retirement age or providing termination benefits as a result of the Company's proposal to voluntarily terminate the employment relationship.

Termination benefits in the event of voluntary redundancy are recognised as an expense if the Company has made an offer to encourage voluntary redundancy, it is probable that the offer will be accepted and the number of voluntary redundancies can be reliably estimated.

If termination benefits are due more than 12 months after the end of the reporting period, they are discounted to present value.

Short-term employee benefits
Liabilities on account of short-term employee benefits are measured without discount and are charged to costs in the period in which the benefit is performed. The Company recognises a liability as cost in the amount of anticipated payments to employees on account of short-term cash bonuses or profit distribution plans, if the Company has a legal or constructive obligation to make such payments for past work performed by employees, and the liability can be reliably estimated.

Share-based payments
The fair value of the granted option for the purchase of the Dominant Entity's shares is recognized as a cost on account of remuneration with a simultaneous increase in equity.

The fair value is determined as at the date of granting the option to purchase shares by the employees and is split over the period in which the employees obtain the unconditional right to exercise the option. The amount charged to costs is adjusted to reflect the current number of options granted for which service and non-market vesting conditions are satisfied.

For share-based payments with conditions other than vesting conditions, the fair value of share-based payment awards is determined to reflect those conditions and is not revalued if there are differences between expected and actual results. The fair value of the amount to be paid to employees in respect of their right to participate in the increase of the value of shares settled in cash is recognized as a cost along with the increase in liabilities. Fair value is initially estimated at grant date and is allocated over the period in which the employees obtain the unconditional right to receive a payment.

The measurement of the liability is verified at the end of each reporting period and at the settlement date. All changes in the fair value of the liability are recognised as personnel costs in profit or loss of the current period.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation arising in connection with past events, the value of which can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation.

The provisions are determined by discounting expected future cash flows using a pre-tax rate that reflects the current time value of money and the risks specific to a given liability. The reversal of the discount is recognised as a financial cost.

Warranty repairs

A provision for warranty repairs is recognised when the products or services for which the warranty was granted have been sold. The amount of the provision is determined on the basis of historical data concerning granted warranties and all possible results weighted by the related probability of performance.

Restructuring

A provision for restructuring costs is recognised when the Company has adopted a detailed and formal restructuring plan and the process has been initiated or announced publicly. The provision does not include future operating losses.

Restoration costs

In accordance with the Company's adopted environmental policy and applicable legal requirements, a provision for restoration costs relating to contaminated land is recognised when such land became contaminated.

Onerous contracts

The provision for onerous contracts is recognised when the economic benefits which the Company expects to derive from the contract are lower than the unavoidable costs of meeting the contractual obligations.

The provision is measured at the present value of the lower of the following amounts: expected costs of withdrawal or expected net costs of continuing with the contract. Before a provision is determined, the Company recognises any impairment loss on the assets associated with a given contract.

Revenues

Sale of products, goods and services

In accordance with IFRS 15, the Company applies the so-called "Five-step model" for recognition of revenues arising from contracts with customers. According to the standard, revenue is recognised in the amount of remuneration which the Company expects to receive in exchange for the delivery of the promised goods or services to the customer. The Issuer divides the sales revenues into:

- revenues from the sale of products (own and third-party licenses),
- revenues from the sale of services,
- revenues from the sale of goods and materials.

The fundamental principle of the new standard is to recognise revenue upon transfer of control over goods or services to the customer at the transaction price. Any goods or services sold in bundles that are separable within the bundle should be recognised separately, and any discounts and rebates on the transaction price should generally be allocated to the individual components of the bundle. In the case the amount of revenue is variable, in accordance with the new standard, variable amounts are recognised as revenue if it is highly probable that there will be no future reversal of the recognition of revenue as a result of the revaluation. In addition, under IFRS 15, costs incurred to acquire and secure a contract with a customer are to be capitalized and settled over time throughout the useful life of the contract.

Loyalty program

The Company may run a customer loyalty program in which customers are rewarded with loyalty points entitling customers to purchase products from the Company at a reduced price. The fair value of the payment received or due in respect of the initial sale is allocated to the points and other sales components. Since the fair value of the points themselves is not directly available, the amount allocated to the points is estimated by reference to the fair value of the right to purchase products at a reduced price.

The fair value of the discounted product is estimated on the basis of the amount of the rebate adjusted for the rate of the award loss. This amount represents deferred income and such revenue is recognised when the exchange of loyalty points is made and the Company meets its obligation to provide awards in the form of products at a reduced price.

Therefore, the amount of recognised revenue is calculated on the basis of the number of loyalty points exchanged for awards in relation to the total number of loyalty points that are expected to be exchanged. Deferred income is also transferred to revenue when the expectation that the points will be exchanged is not justified.

Provision of services

Revenues from the provision of services are recognised in profit or loss in proportion to the degree of performance as at the reporting date. The degree of performance is assessed by reference to the scope of work performed. Where the provision of services under a single contract takes place in different reporting periods, the payment due is allocated between the services on the basis of appropriately defined fair value.

Construction contracts

Revenue under a construction contract consists of the amount initially agreed in the contract, adjusted by subsequent changes in the scope of performed works, claims or incentive payments to the extent that it is probable that these changes will affect the amount of revenue and their impact can be reliably measured. As soon as it becomes possible to reliably estimate the result on a construction contract, the contractual revenue is recognised in profit or loss in proportion to the stage of completion. Contract-related costs are recognised when incurred, unless they form assets related to future works under the contract.

The level of completion shall be assessed by measuring the works performed. If the result on a construction contract cannot be reliably estimated, the contractual revenue is recognised only to the extent that the contract costs incurred are probable to be recovered. The expected loss on the contract is recognised in profit or loss of the current period.

Fee and commission income

If the Company acts as an intermediary in the transaction, and not as a party to the contract, the revenue is recognized in the net amount of the received commission.

Lease income

Income from lease of investment property is recognized in profit or loss on a straight-line basis over the term of the contract. Benefits transferred in exchange for signing a lease contract are an integral part of total lease income and are recognized in profit or loss for the current period over the term of the contract. Revenues from sublease of leased immovable property are recognised as other operating income.

Revenues from contracts for licensed services

Revenues from construction and modernization services provided under a contract for licensed services are recognized proportionally to the stage of completion of works performed, in accordance with the accounting principles applied by the Company in terms of recognition of revenue from construction services. Revenues from operation or services are recognised in the period in which the services are provided by the Company. If the Company provides more than one service on the basis of a contract for licensed services, the payment received is allocated proportionally to the fair value of the performed services, if the amounts are separable.

Government grants

Government grants are recognised if, and only if, there is reasonable assurance that the entity will comply with the conditions associated with such grant and that the grant will be received.

A grant shall be accounted for in the same way regardless of whether it is received in the form of cash or as a reduction in liabilities to government. If a grant relates to a given cost item, then it is recognised as income (or a reduction in costs) in a manner commensurate with the costs that the grant is intended to compensate. If the grant relates to a component of assets, then its fair value is recognised in the deferred income balance, and then gradually, by way of equal annual write-downs, recognised in the profit and loss account over the estimated useful life of the related component of assets, by reducing the depreciation charge.

Grants are presented in assets by deducting the amount of the grant from the value of the asset that has been financed with the grant in whole or in part.

Lease payments
Operating lease payments are recognised on a straight-line basis over the lease term as the cost of current period. Benefits received in exchange for signing the lease contract are recognized as the reduction of the lease costs over the lease term. Lease payments incurred in connection with the financial lease are divided into an interest part and a part reducing the lease liabilities. The part representing financial cost is recognized as cost of the current period in the statement of comprehensive income.

Financial income and costs
Financial income includes interest income related to funds invested by the Company (including on financial assets available for sale), dividends due, gains on disposal of financial assets available for sale, gains on change in fair value of financial instruments measured at fair value through profit or loss, gains on fair value measurement of previously acquired shares in the acquired entity, gains on hedging instruments that are recognised in profit or loss of the current period.

Interest income is recognised in profit or loss of the current period on accrual basis using the effective interest rate method.

Dividend is recognized in profit or loss of the current period as at the date when the Company obtains the right to receive it, and in the case of securities listed on the stock exchange - usually on the first day of listing of these instruments without the right to dividend.

Financial costs include interest expense related to borrowings, unwinding of the discount on recognised provisions and contingent payments, losses on the disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, losses on changes in the fair value of financial instruments at fair value through profit or loss, impairment losses on financial assets (other than trade receivables) and losses on hedging instruments that are recognised in profit or loss of the current period.

Borrowing costs which cannot be directly attributed to the acquisition, manufacture, construction or production of specific assets are recognised in profit or loss using the effective interest rate method. Foreign exchange gains and losses are recognised at their net amount as financial income or financial costs, depending on their total net amount.

Income tax
Income tax comprises current and deferred tax. Current and deferred income tax is recognised in profit or loss of the current period, except when it relates to a business combination and items recognised directly in equity or as other comprehensive income. Current tax is the expected amount of taxable income tax liabilities or receivables determined using tax rates binding legally or factually as at the reporting date along with adjustments of the tax liability relating to previous years. Current tax liability also covers any tax liabilities resulting from the payment of dividends. Deferred tax is recognised in connection with temporary differences between the carrying amount of assets and liabilities and their amount determined for tax purposes. Deferred income tax is not recognized in case of:

- temporary differences arising from the initial recognition of assets or liabilities resulting from a transaction that is not a business combination and affects neither profit or loss nor taxable profit;
- temporary differences arising from investments in subsidiaries and jointly controlled undertakings to the extent that it is not probable that they will be disposed of in the foreseeable future;
- temporary differences arising in connection with the initial recognition of goodwill.

Deferred tax is measured using tax rates that are expected to be applied when the temporary differences reverse, based on tax laws that have been in force or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if the Company has an enforceable legal title to offset current tax liabilities and assets and provided that the deferred income tax assets and liabilities relate to income tax imposed by the same tax authority on the same taxpayer or on different taxpayers who intend to settle income tax liabilities and receivables in a net amount or realise receivables and settle liabilities simultaneously.

A deferred tax asset intended for carrying forward unsettled tax losses, unused tax credits and deductible temporary differences is recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax assets are assessed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits associated with them will be realised.

Discontinued operations
Discontinued operations are part of the Company's operations that is a separate significant line of business or geographical area of operations that was either sold or held for sale or distribution, or it is a subsidiary acquired exclusively for resale.

Classification to discontinued operations is made as a result of disposal or when the operations meet the criteria for classification as held for sale. When an operations are classified as discontinued, comparative data to the statement of comprehensive income is restated as if the operations had been discontinued at the beginning of the comparative period.

Earnings per share
The Company presents basic and diluted earnings per share for ordinary shares. Basic earnings per share is calculated by dividing profit or loss attributable to the holders of ordinary shares by the weighted average number of ordinary shares in the year, adjusted for the treasury shares held by the Company. Diluted earnings per share is calculated by dividing the adjusted profit or loss attributable to the holders of ordinary shares by the weighted average number of ordinary shares adjusted for the treasury shares held and the dilutive effects of potential shares, which include bonds convertible into shares and share options granted to employees.

Business segment reporting
The operating segment is a part of the Company engaged in business activity, in relation to which it may obtain revenues and incur costs, including revenues and costs related to transactions with other parts of the Company. The operating results of each operating segment are regularly reviewed by the main decision-making body in the Company, which decides on the allocation of resources to the segment and assesses its operating results, while separate financial information is available for each segment. The operating results of each segment, which are reported to the decision-making body in the Company, include both items that can be directly assigned to a given segment and those that can be indirectly assigned on the basis of justified premises. Unassigned items relate mainly to joint (corporate) assets (primarily related to the management board of the entity), costs associated with the registered office of the entity, income tax assets and liabilities. Capital expenditures of the segment include total costs incurred during the year for the purchase of tangible fixed assets and intangible assets, excluding goodwill.

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 Company's functional and presentation currency. Unless otherwise stated, all values are disclosed in thousands of PLN. Transactions denominated in currencies other than the Polish zloty are translated at initial recognition into the Polish zloty using the exchange rate prevailing on the transaction date. As at the balance sheet date:

- cash items are translated using the closing exchange rate, i.e. the average exchange rate set for a given currency by the National Bank of Poland for that day
- non-cash items measured at historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the initial transaction
- non-cash items measured at fair value in a foreign currency are translated using the exchange rate prevailing at the date at which the fair value was determined.

For the purpose of balance sheet valuation, the following exchange rates for EUR and USD were adopted (and corresponding exchange rates for other currencies quoted by the National Bank of Poland):

- exchange rate applicable on 31 December 2019	EUR 1 = PLN 4.2585
- exchange rate applicable on 31 December 2018	EUR 1 = PLN 4.3000
- exchange rate applicable on 31 December 2019	USD 1 = PLN 3.7977
- exchange rate applicable on 31 December 2018	USD 1 = PLN 3.7597

Transactions and balances
Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the transaction date. Foreign exchange gains and losses on the settlement of such transactions and the balance sheet valuation of cash assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, unless deferred in equity, when they qualify for recognition as cash flow hedges and hedge of net investment.

IV. Material values based on professional judgment and estimates

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.

Uncertainty of estimates
Below is a description 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 loss on assets
The Company carried out impairment tests of fixed assets. This entailed estimating the value in use of the cash-generating unit to which these fixed assets are allocated. Estimating the value in use involves determining the future cash flows generated by the cash-generating unit and requires determining a discount rate to be applied in order to calculate the present value of these cash flows.

Valuation of provisions
Provisions for employee benefits were estimated using the actuarial methods. The assumptions adopted for this purpose are presented in Notes 41 and 42.

Component of deferred tax assets
The Company 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 Company uses the professional judgment. The method of determining the fair value of individual financial instruments is presented in note 12 and note 44.

Recognition of revenues
The Company applies the percentage of completion method in the settlement of long-term contracts. Using this method requires the Company to estimate the proportion of works done so far in relation to all services and works which are to be performed.

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

V. Changes in accounting principles (policy)

The accounting policy adopted for the preparation of this financial statement for the year ended 31 December 2019 is consistent with that adopted for the preparation of the annual financial statement for the previous financial year, except for the changes described below. The same accounting principles were applied for the current and comparative period.

The separate financial statement for the comparative period has been prepared in accordance with IFRS for the first time and, in addition to the effect of applying IFRS for the first time, it also reflects the merger of LSI Software S.A. with controlled company Softech Sp. z o.o. carried out with the use of pooling of interest method.

Effect of applying new accounting standards and changes in accounting policy

- **Changes resulting from amendments to 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.

- **IFRS 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 allowed (provided that IFRS 15 is applied simultaneously). The standard replaces the existing regulations concerning leases (e.g. IAS 17) and radically changes the approach to lease agreements of different nature, obliging the lessee to present lease assets and lease liabilities in the balance sheets, regardless of their type.

The Company decided not to apply the standard earlier. As at the date of the first application of IFRS 16, i.e. as at 1 January 2019, the simplified approach was applied - there were no restatement of comparative data and no adjustment to the opening balance of retained earnings at the date of first application (the initial balance of assets recognized in the balance sheet was equal to that of liabilities). The valuation of right-of-use assets was carried out independently by the Company without the involvement of an independent expert.

Implementation of IFRS 16 Leases had no material impact on the financial statements of the Company and the Group. One lease agreement of significant value concerning the right of perpetual usufruct of land was identified, which was shown in the Right-of-Use Assets and the amount of the liability on this account was shown in the Lease Liabilities item, and not, as so far, in the Other financial liabilities item. In addition, the previous recognition of an office space lease agreement concluded for a definite period until 18 February 2022 was changed.

The lessee's marginal interest rate for a given lease agreement was determined as the sum of the risk-free rate dependent on the currency and lease term, credit margin adjustments and the leased asset-specific adjustment. The amount of marginal interest rates applied by the Company stands at 3%.

The structure of assets and liabilities and the profit and loss account has changed. The impact of the changes is presented below in the profit and loss account for the period 01.01-31.12.2019 and the statement of financial position as at 31.12.2019 adjusted for withdrawal of application of IFRS 16.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Profit and loss account for the period: 01.01-31.12.2019

	Application of IFRS 16	Withdrawal of application of IFRS 16	Without IFRS 16
Continuing activities			
Sales revenues	**46 791**	**0**	**46 791**
Revenues from sales of products	11 396		11 396
Revenues from sales of services	12 914		12 914
Revenues from sales of goods and materials	22 481		22 481
Cost of products, goods and materials sold	**37 921**	**-10**	**37 911**
Manufacturing costs of products and services sold	22 421	-10	22 411
Value of goods and materials sold	15 500		15 500
Gross profit (loss) on sales	***8 870***	***10***	***8 880***
Other operating income	1 647		1 647
Sales costs	1 279		1 279
General and administrative costs	3 798	32	3 830
Other operating costs	142		142
Profit (loss) on operating activities	***5 298***	***-22***	***5 276***
Financial income	1 628		1 628
Financial costs	280	-64	216
Share in net profit (loss) of entities accounted for using the equity method	0		0
Profit (loss) before tax	***6 646***	***42***	***6 688***
Income tax	268	8	276
Net profit (loss) from continuing operations	***6 378***	***34***	***6 412***
Profit (loss) on discontinued operations	0		0
Net profit (loss)	***6 378***	***34***	***6 412***

Statement of financial position as at 31.12.2019

ASSETS	Application of IFRS 16	Withdrawal of application of IFRS 16	Without IFRS 16
Fixed assets	**30 719**	**-2 797**	**27 922**
Fixed tangible assets	8 957		8 957
Intangible assets	12 220		12 220
Right-of-use assets	2 344	-2 344	0
Investment property	0		
Investments in associates	5 937		5 937
Financial assets available for sale	0		0
Other financial assets	0		0
Deferred tax assets	1 261	-453	808
Other fixed assets	0		0
Current assets	**23 893**	**0**	**23 893**
Inventory	4 589		4 589
Trade receivables	13 685		13 685
Current income tax receivables	19		19
Other receivables	909		909
Financial assets available for sale	0		0
Financial assets measured at fair value through profit or loss	0		0
Other financial assets	0		0
Prepayments	238		238
Cash and cash equivalents	4 453		4 453
Assets classified as held for sale	**0**		**0**
TOTAL ASSETS	**54 612**	**-2 797**	**51 815**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

LIABILITIES	Application of IFRS 16	Withdrawal of application of IFRS 16	Without IFRS 16
Equity	**38 115**	**34**	**38 149**
Share capital	3 261		3 261
Statutory capital reserve	27 103		27 103
Own shares	-609		-609
Other reserves	2 060		2 060
Undistributed financial result	-78		-78
Financial result of the current period	6 378	34	6 412
Long-term liabilities	**4 281**	**-2 637**	**1 644**
Credits and loans	790		790
Other financial liabilities	2 630	-2 192	438
Other long-term liabilities	0		0
Deferred income tax provision	860	-445	415
Accruals	0		0
Provisions for retirement and similar benefits	1		1
Other provisions	0		0
Short-term liabilities	**12 216**	**-194**	**12 022**
Credits and loans	602		602
Lease liabilities and other financial liabilities	708	-194	514
Trade liabilities	8 666		8 666
Current income tax liabilities	0		0
Other liabilities	2 093		2 093
Accruals	46		46
Provisions for retirement and similar benefits	2		2
Other provisions	99		99
Liabilities directly related to assets classified as held for sale	**0**		**0**
TOTAL LIABILITIES	**54 612**	- 2 797	**51 815**
Book value per share	**11,69**		**11,70**

- **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.

Implementation of the new interpretation had no material impact on the Company's financial statement.

- **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.

Implementation of the new interpretation had no material impact on the Company's financial statement.

- **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.

Implementation of the new interpretation had no material impact on the Company's financial statement.

- **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.

Implementation of the new interpretation had no material impact on the Company's financial statement.

- **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.

Implementation of the new interpretation had no material impact on the Company's financial statement.

- **Changes introduced independently by the Company**

The Company did not make a presentation adjustment to the comparative data as at 31 December 2018 and for the financial year ended 31 December 2019. In accordance with the applicable standards, as at the balance sheet date, the Company carries out an analysis in terms of assessment of evidence of impairment of the assets held and carries out a fair value measurement. Moreover, the Company also performs tests as at other balance sheet dates if the analysis of evidence of impairment indicates such necessity.

- **Standards that are not yet in force (New standards and interpretations)**

In the financial statements hereof, the Company has not decided on the earlier application of published standards or interpretations before their effective date. The following standards and interpretations were issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee and have not yet entered into force as at the balance sheet date:

- **IFRS 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 due to the IASB's ongoing work on regulating the settlement of operations under price regulation conditions. The standard introduces rules for recognition of assets and liabilities arising from transactions at regulated prices in the event that an entity makes a decision to move to IFRS.

An entity will apply a new standard not earlier than the date specified by the European Union as the effective date for that standard. Due to the transitional nature of the standard, the European Commission has decided not to initiate the formal approval procedure and to await the target standard.

- **IFRS 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 allowed (provided that IFRS 15 and IFRS 9 are applied simultaneously). The standard replaces the existing regulations concerning insurance contracts (IFRS 4).

The Company will apply the new standard for annual periods beginning on or after 1 January 2021.

- **Amendments to IFRS 10 and IAS 28: Sales or contributions of assets between an investor and its associate/joint venture**

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 has now been postponed without indicating the initial date). The amendments clarify the accounting for transactions involving a parent company losing control over a subsidiary that is not “business” as defined in IFRS 3 "Business Combinations", by selling all or part of the 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 approval procedure of the amended standards.

- **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.

An entity will apply the amended standard from the date indicated by the EU as the effective date of that amendment.

- **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.

LSI Software S.A. will apply the revised standard from 1 January 2020.

- **Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7**

Amendments to IFRS 9, IAS 39 and IFRS 7 were published on 26 September 2019 and apply to annual periods beginning on or after 1 January 2020.

The amendments modify the detailed requirements of hedge accounting in order to minimise (eliminate) the potential effects of uncertainty related to the reform of benchmark (interbank) interest rates. In addition, entities will be required to add supplementary disclosures for those hedging arrangements that are directly affected by the uncertainty related to the reform.

The Company will apply the amended standard as of the date indicated by the EU as the effective date of this amendment.

According to the Company's estimates, the aforesaid standards, interpretations and amendments to the standards will not have a significant impact on the Company's financial statement.

IFRS in the form approved by the EU do not currently differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, interpretations and amendments thereto, which at the date of approval of this financial statement for publication have not been adopted for use by EU countries:

- IFRS 14 Regulatory Deferral Accounts published on 30 January 2014 (suspended adoption process),
- IFRS 17 Insurance Contracts, published on 18 May 2017,
- Amendments to IFRS 10 and IAS 28: Sales or contributions of assets between an investor and its associate/joint venture, published on 11 September 2014 (suspended adoption process),
- Amendment to IFRS 3 Business Combinations published on 22 October 2018,
- Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7 published on 26 September 2019.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

E. Additional explanatory notes to the financial statement

Note 1. SALES REVENUES

In accordance with IFRS 15, the Company applies the so-called "Five-step model" for recognition of revenues arising from contracts with customers. According to the standard, revenue is recognised in the amount of remuneration which the Company expects to receive in exchange for the delivery of the promised goods or services to the customer. The Issuer divides the sales revenues into:
- revenues from the sale of products (own and third-party licenses),
- revenues from the sale of services,
- revenues from the sale of goods and materials.

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

	01.01 - 31.12.2019	01.01 - 31.12.2018
Continued operations		
Sales of goods and materials	22 481	22 169
Sales of products	11 396	7 314
Sales of services	12 914	12 746
Sales revenues, TOTAL	**46 791**	**42 229**
Other operating revenues	1 647	1 825
Financial revenues	1 628	491
Revenues on continued operations, TOTAL	**50 066**	**44 545**
Revenues on discontinued operations		
TOTAL REVENUES	**50 066**	**44 545**

Revenues on discontinued operations were not recognized.

Note 2. OPERATING SEGMENTS

The description of operating segments is presented in Note 2 to the consolidated financial statements for the 12-month period ended 31 December 2019.

Sales revenues - detailed geographic structure

	01.01 -31.12.2019		01.01 -31.12.2018	
	w PLN	w %	w PLN	w %
Poland	**39 606**	**85%**	**39 581**	**94%**
Export, including:	**7 185**	**15%**	**2 648**	**6%**
European Union	1 162	2%	2 074	5%
Countries of the former USSR	99	0%	0	0%
USA	1 114	2%	0	0%
Asia	3 983	9%	515	1%
Other	827	2%	59	0%
Total	**46 791**	**100%**	**42 229**	**100%**

The Company's sales are of dispersed nature. In the sales structure, in relation to the turnover value, there is no significant recipient of services and solutions whose share in the sales revenue reached 10%.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 3. OPERATING COSTS

COSTS BY TYPE	01.01 -31.12.2019	01.01 -31.12.2018
Amortisation/depreciation	4 362	3 372
Consumption of materials and energy	1 874	1 555
Outsourced services	9 098	9 114
Taxes and charges	536	551
Remunerations	11 281	9 225
Social insurance and other benefits	2 180	1 772
Other costs	1 696	1 727
Guarantee provisions	0	0
Total costs by type, including:	**31 027**	**27 316**
Change in products	-3 529	-3 513
Cost of manufacturing of a product for the entity's own needs (negative value)	0	0
Selling costs (negative value)	-1 279	-1 888
General and administrative costs (negative value)	-3 798	-3 565
Manufacturing costs of products and services sold	**22 421**	**18 350**

DEPRECIATION COSTS AND IMPAIRMENT LOSSES PRESENTED IN THE PROFIT AND LOSS ACCCOUNT	01.01 - 31.12.2019	01.01 - 31.12.2018
Items included in cost of sales:	**4 215**	**3 280**
Depreciation of fixed assets	853	587
Depreciation of intangible assets	3 362	2 693
Impairment loss on fixed tangible fixed assets	0	0
Impairment loss on intangible assets	0	0
Items included in selling costs:	**0**	**0**
Depreciation of fixed assets	0	0
Depreciation of intangible assets	0	0
Impairment loss on fixed tangible fixed assets	0	0
Impairment loss on intangible assets	0	0
Items included in general and administrative costs	**147**	**92**
Depreciation of fixed assets	147	92
Depreciation of intangible assets	0	0
Impairment loss on fixed tangible fixed assets	0	0
Impairment loss on intangible assets	0	0

EMPLOYMENT COSTS	01.01 -31.12.2019	01.01 -31.12.2018
Remunerations	11 281	9 225
Social insurance and other benefits	2 180	1 772
Costs of retirement benefits	0	0
Other post-employment benefits	0	0
Share options granted to members of the Management Board and executive officers	0	0
Other costs of employee benefits	0	0
Employee benefits, TOTAL, including:	**13 461**	**10 997**
Items included in cost of sales	11 975	9 778
Items included in selling costs	124	207
Items included in general and administrative costs	1 362	983

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 4. OTHER OPERATING REVENUES AND COSTS

OTHER OPERATING REVENUES	01.01 -31.12.2019	01.01 -31.12.2018
Profit on disposal of fixed assets	51	73
Profit on sale of investment property	0	0
Release of provisions	0	68
Release of write-downs of assets	651	289
Profit on revaluation of investment property to fair value	0	0
Fines and damages received	96	81
Government grants	761	1 278
Write-downs of liabilities	63	20
Rent/Tenancy	14	0
Other	11	16
TOTAL	**1 647**	**1 825**

OTHER OPERATING COSTS	01.01 -31.12.2019	01.01 -31.12.2018
Write-downs of receivables	0	18
Creation of provisions	1	0
Penalties and compensations paid, liquidation of damages	67	27
Recognition of impairment loss	30	301
Court fees and costs	34	7
Other	10	13
TOTAL	**142**	**366**

RECOGNITION/RELEASE OF IMPAIRMENT LOSS	01.01 -31.12.2019	01.01 -31.12.2018
Receivables	-621	12
TOTAL	**-621**	**12**

Note 5. FINANCIAL REVENUES AND COSTS

FINANCIAL REVENUES	01.01 -31.12.2019	01.01 -31.12.2018
Interest income	501	123
Profit on disposal of own receivables	7	0
Dividends received	1 120	295
Surplus of foreign exchange gains	0	73
TOTAL	**1 628**	**491**

FINANCIAL COSTS	01.01 -31.12.2019	01.01 -31.12.2018
Interest costs	191	106
Surplus of foreign exchange losses	89	0
Other	0	0
TOTAL	**280**	**106**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

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

01.01 – 31.12.2019	Measurement at amortised cost	Measurement at fair value through profit or loss	Fair value measurement 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	310	0
Interest revenues related to impaired assets	0	0	0
Recognition of impairment losses	0	0	0
Release of impairment losses	0	0	0
Foreign exchange gains/losses	0	-89	0
Gains/losses on disposal of financial assets	0	7	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**	**228**	**0**

01.01 – 31.12.2018	Measurement at amortised cost	Measurement at fair value through profit or loss	Fair value measurement 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	17	0
Interest revenues related to impaired assets	0	0	0
Recognition of impairment losses	0	0	0
Release 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**	**90**	**0**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 6. INCOME TAX AND DEFERRED INCOME TAX

The main components of the tax burdens for the years ended 31 December 2019 and 2018 are as follows:

INCOME TAX DISCLOSED IN THE PROFIT AND LOSS ACCOUNT	01.01 -31.12.2019	01.01 -31.12.2018
Current income tax	**315**	**362**
Relating to the financial year	315	362
Adjustments relating to previous years	0	0
Deferred income tax	**-47**	**88**
Related to the occurrence and reversal of temporary differences	-47	88
Related to the reduction of income tax rates	0	0
Tax burden disclosed in the consolidated income statement	**268**	**450**

The deferred tax recognized in the profit and loss account is the difference between the balance of deferred tax liabilities and assets at the end and beginning of reporting periods.

CURRENT INCOME TAX	01.01 -31.12.2019	01.01 -31.12.2018
Profit before tax	**6 646**	**5 951**
Previous years' revenues increasing the tax base	83	51
Non-taxable revenue	2 101	2 130
Previous years' costs decreasing the tax base	1 212	1 154
Non-deductible costs	2 507	2 227
Taxable income	**5 923**	**4 945**
Deductions from income - donation, loss	4 263	3 041
Tax base	**1 660**	**1 904**
Income tax at the rate of 19%	315	362
Effective tax rate (share of income tax burden in pre-tax profit)	**4,0%**	**7,6%**

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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

DEDUCTIBLE TEMPORARY DIFFERENCES BEING THE BASIS FOR CREATION OF DEFERRED INCOME TAX ASSET	31.12.2018	increases	decreases	31.12.2019
Provision for jubilee awards and retirement benefits	2	1	0	3
Provision for other employee benefits	0	0	0	0
Provision for unused leaves	66	67	66	67
Other provisions	0	0	0	0
Lease liabilities	942	2 376	0	3 318
Outstanding costs of delegations	0	3	0	3
Foreign exchange losses	95	62	0	157
Remunerations and social insurance payable in the subsequent periods	283	87	0	370
Impairment loss on shares in other entities	2 305	0	0	2 305
Impairment loss on inventory	245	0	10	235
Impairment loss on receivables	264	0	89	175
Other	0	0	0	0
Deductible temporary differences, total	**4 203**	**2 596**	**165**	**6 634**
Tax rate	19%	19%	19%	19%
Deferred tax assets	**799**	**493**	**31**	**1 261**

TAXABLE TEMPORARY DIFFERENCES BEING THE BASIS FOR CREATION OF DEFERRED INCOME TAX PROVISION	31.12.2018	increases	decreases	31.12.2019
Valuation of fixed assets under lease	1 674	2 002	0	3 676
Fair value adjustments arising on acquisition of entities	221	267	0	488
Accrued interest	332	0	18	314
Foreign exchange gains	116	0	69	47
Taxable temporary differences, total	**2 342**	**2 269**	**87**	**4 524**
Tax rate	19%	19%	19%	19%
Deferred tax provision at the end of reporting period	**445**	**431**	**17**	**860**

Net deferred income tax assets / provisions

	31.12.2019	31.12.2018
Deferred income tax asset	1 261	799
Deferred income tax provision – continuing operations	860	445
Deferred income tax provision – discontinued operations	0	0
Net deferred income tax assets / provisions	**401**	**354**

Note 7. DISCONTINUED OPERATIONS

There were no discontinued operations in the reporting period.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 8. PROFIT PER SHARE

Profit per share is calculated by dividing the net profit for the period attributable to ordinary shareholders of the Company 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).

Continuing operations

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

	01.01-31.12.2019	01.01-31.12.2018
Net profit from continuing operations	6 378	5 501
Loss on discontinued operations	0	0
Profit recognized for the purposes of calculating the basic profit per share	**6 378**	**5 501**
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	**6 378**	**5 501**

Number of shares issued

	01.01-31.12.2019	01.01-31.12.2018
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	0	0
- 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**

In 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
31.12.2019	-	-	-	-	0	0
31.12.2018	31.07.2019	1 606	0,50 PLN	-	0	0

Note 10. DISCLOSURE OF OTHER COMPONENTS OF COMPREHENSIVE INCOME

	01.01 -31.12.2019	01.01 -31.12.2018
Revaluation of fixed tangible assets:	**0**	**0**
- Increase resulting from the revaluation of assets during the year		
- Decrease resulting from the revaluation of assets during the year		
Net change in fair value 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 gains (loss) on defined benefit plans:	**0**	**0**
Actuarial gains on defined benefit plans:		
Actuarial loss on defined benefit plans:		
Other items	**0**	**0**
Income tax related to components of other comprehensive income	**0**	**0**
Comprehensive income, total	**0**	**0**

Note 11. TAX EFFECT OF OTHER COMPREHENSIVE INCOME

	01.01 -31.12.2019			01.01 -31.12.2018		
	Amount before tax	**Tax**	**Amount after tax**	**Amount before tax**	**Tax**	**Amount after tax**
Revaluation of tangible fixed assets	0	0	0	0	0	0
Net change in fair value of available-for-sale financial assets	0	0	0	0	0	0
Effective portion of changes in the fair value of cash flow hedging instruments	0	0	0	0	0	0
Actuarial profits (losses) on defined benefit plans	0	0	0	0	0	0
Other items	0	0	0	0	0	0
Comprehensive income, total	**0**	**0**	**0**	**0**	**0**	**0**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 12. FAIR VALUE

Fair value measurements of the Company's land and buildings as at 31 December 2019 and 31 December 2018 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 2019 and in his opinion the market conditions have not changed since the above valuation.

Class of assets / liabilities	Measurement date	Total	Fair value determined on the basis of:		
			Prices quoted in an active market Level 1	Significant observable data Level 2	Significant observable data Level 3
Assets measured at fair value					
Investment property					
- office space	19.08.2016				
- retail space	31.12.2019				
Derivatives					
Currency forward contract - USD	31.12.2019				
Financial assets available for sale					
- shares listed on the stock exchange					
- unlisted shares	31.12.2019				
- listed debt securities					
Revalued tangible fixed assets					
- office immovable property	19.08.2016	500			500
redemption value	31.12.2019	12			12
Discontinued operations	31.12.2019				
Assets which fair value is subject to disclosure					
Loans granted and receivables					
- loans granted to subsidiaries	31.12.2019				
- loans granted to Management Board	31.12.2019				
- loans granted to Supervisory Board	31.12.2019				
Liabilities measured at fair value					
Derivatives					
- Currency forward contract - USD	31.12.2019	21		21	
- interest rate swap	31.12.2019				
Conditional payment (IFRS 3.58)	31.12.2019				
Liabilities which fair value is subject to disclosure					
Interest-bearing credits and loans					
Floating-rate-loan in PLN	31.12.2019	1 392		1 392	

In the period ended 31 December 2019, there were no transfers between level 1 and 2 of the fair value hierarchy.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 13. FIXED TANGIBLE ASSETS

Ownership structure

OWNERSHIP STRUCTURE - net value	31.12.2019	31.12.2018
Own	7 615	5 870
Used on the basis of a rental, lease or other contract, including lease contracts	1 342	1 637
Total	**8 957**	**7 507**

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

Title of liability / restrictions on transferability	31.12.2019	31.12.2018
- used as security for own credits and loans	6 410	5 306
- used as security for third-party credits and loans	0	0
- used as security for other liabilities	0	0
- used under finance lease	1 342	1 637
The carrying value of tangible fixed assets subject to restrictions on transferability or being a security for liabilities	**7 752**	**6 943**

The Company has an 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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Changes in fixed assets (by category) - for the period 01.01.2019 - 31.12.2019

	Lands	Buildings and structures	Machines and devices	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross balance sheet value as at 01.01.2019	**520**	**5 604**	**793**	**3 518**	**286**	**0**	**10 721**
Increases, due to:	***0***	***1 536***	***73***	***831***	***55***	***619***	***3 114***
- acquisition of fixed assets		395	73	249	55	619	1 391
- lease contracts concluded				582			582
- other		1 141					1 141
Decreases, due to:	***0***	***277***	***1***	***577***	***0***	***540***	***1 395***
- disposal				577			577
- liquidation							0
- other		277	1			540	818
Gross balance sheet value as at 31.12.2019	**520**	**6 863**	**865**	**3 772**	**341**	**79**	**12 440**
Redemption as at 01.01.2019	**0**	**818**	**570**	**1 575**	**251**	**0**	**3 214**
Increases, due to:	***0***	***155***	***65***	***547***	***20***	***0***	***787***
- amortisation and depreciation		155	65	546	19		785
- other				1	1		2
Decreases, due to:	***0***	***0***	***1***	***517***	***0***	***0***	***518***
- liquidation				24			24
- disposal				493			493
- other			1				1
Redemption as at 31.12.2019	**0**	**973**	**634**	**1 605**	**271**	**0**	**3 483**
Impairment loss as at 01.01.2019	**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 31.12.2019	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net balance sheet value as at 31.12.2019	**520**	**5 890**	**231**	**2 167**	**70**	**79**	**8 957**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

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**	**3 598**	**1 452**	**3 694**	**309**	**62**	**9 635**
Increases, due to:	***0***	***2 006***	***113***	***708***	***4***	***0***	***2 831***
- acquisition of fixed assets		391	113		4	0	508
- lease contracts concluded				708			708
- other							1 615
Decreases, due to:	***0***	***0***	***772***	***884***	***27***	***62***	***1 745***
- disposal				884			884
- liquidation			772		27		799
- other						62	62
Gross balance sheet value as at 31.12.2018	**520**	**5 604**	**793**	**3 518**	**286**	**0**	**10 721**
Redemption as at 01.01.2018	**0**	**718**	**1 273**	**1 904**	**255**	**0**	**4 150**
Increases, due to:	***0***	***100***	***65***	***492***	***22***	***0***	***679***
- amortisation and depreciation		100	65	492	22		679
- other							0
Decreases, due to:	***0***	***0***	***768***	***821***	***26***	***0***	***1 615***
- liquidation			768		26		794
- disposal				821			821
- other							0
Redemption as at 31.12.2018	**0**	**818**	**570**	**1 575**	**251**	**0**	**3 214**
Impairment loss 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 balance sheet value as at 31.12.2018	**520**	**4 786**	**223**	**1 943**	**35**	**0**	**7 507**

Fixed assets under construction

As at 01.01.2019	Expenditures incurred in the financial year	Settlement of expenditures				Impairments	As at 31.12.2019
		Buildings, premises and civil engineering facilities	Technical devices and machines	Means of transport	Other fixed assets		
0	619	394	146	0	0	0	**79**

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	424	391	95	0	0	0	**0**

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 31.12.2019	Value as at 31.12.2019	Area of a parcel [m^2] as at 31.12.2019	Value as at 31.12.2019
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 with carrying amount of PLN 6 410 thousand (as at 31 December 2018 – PLN 5 306 thousand) are a security for the benefit of mBank S.A. with regard to loans granted. Fair value measurements of the Group’s immovable property as at 31 December 2019 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 2019 and in his opinion the market conditions have not changed since the above valuation. In the presented period there was no capitalization of borrowing costs and no impairments on fixed assets were recognized.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Fixed assets under lease

Fixed assets	31.12.2019			31.12.2018		
	Gross value	Redemption	Net value	Gross value	Redemption	Net value
Immovable property	0	0	0	0	0	0
Machines and devices	54	32	22	54	16	38
Means of transport	1 757	437	1 320	2 216	617	1 599
Other fixed assets	0	0	0	25	25	0
Right-of-use assets	2 559	215	2 344	0	0	0
Total	**4 370**	**684**	**3 686**	**2 295**	**658**	**1 637**

The carrying amount of fixed assets being in use as at 31 December 2019 under lease agreements is PLN 3,686 thousand (as at 31 December 2018: PLN 1 637 thousand).

Impairment losses in the period from 01.01.2019 to 31.12.2019 and from 01.01.2018 to 31.12.2018.

In the presented period and in the previous period no impairment losses on fixed assets were recognised.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 14. INTANGIBLE ASSETS

Changes in intangible assets (by category) – for the period of 01.01.2019-31.12.2019

	Development costs	Costs of development work in progress	Patents and licenses	Software	Other	Intangible assets under construction	Total
Gross balance sheet value as at 01.01.2019	**19 233**	**3 187**	**0**	**0**	**8 054**	**0**	**30 474**
Increases, due to:	***3 975***	***2 861***	***0***	***0***	***1***	***0***	***6 837***
- acquisition	3 975	2 861			1		6 837
- other							0
Decreases, due to:	***797***	***2 007***	***0***	***0***	***443***	***0***	***3 247***
- disposal							0
- liquidation							0
- other	797	2 007			443		3 247
Gross balance sheet value as at 31.12.2019	**22 411**	**4 041**	**0**	**0**	**7 612**	**0**	**34 064**
Redemption as at 01.01.2019	**12 599**	**0**	**0**	**0**	**6 359**	**0**	**18 958**
Increases, due to:	***2 663***	***0***	***0***	***0***	***1 175***	***0***	***3 838***
- amortisation and depreciation	2 187				1 175		3 362
- other	476						476
Decreases, due to:	***476***	***0***	***0***	***0***	***476***	***0***	***952***
- disposal							0
- liquidation							0
- other	476				476		952
Redemption as at 31.12.2019	**14 786**	**0**	**0**	**0**	**7 058**	**0**	**21 844**
Impairments as at 01.01.2019	**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
- other							0
Impairments as at 31.12.2019	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net balance sheet value as at 31.12.2019	**7 625**	**4 041**	**0**	**0**	**554**	**0**	**12 220**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

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

	Development costs	Costs of development work in progress	Patents and licenses	Software	Goodwill	Other	Intangible assets under construction	Total
Gross balance sheet value as at 01.01.2018	**13 754**	**5 141**	**0**	**0**	**0**	**7 745**	**0**	**26 944**
Increases, due to:	***5 479***	***0***	***0***	***0***	***0***	***361***	***0***	***5 543***
- acquisition	5 479					361		5 543
- other								0
Decreases, due to:	***0***	***1 954***	***0***	***0***	***0***	***57***	***0***	***2 013***
- disposal								0
- liquidation								0
- other		1 954				57		2 013
Gross balance sheet value as at 31.12.2018	**19 233**	**3 187**	**0**	**0**	**0**	**8 049**	**0**	**30 474**
Redemption as at 01.01.2018	**11 062**	**0**	**0**	**0**	**0**	**3 844**	**0**	**16 265**
Increases, due to:	***1 537***	***0***	***0***	***0***	***0***	***1 359***	***0***	***2 693***
- amortisation and depreciation	1 537					1 359		2 693
- other								0
Decreases, due to:	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
- disposal								0
- liquidation								0
- other								0
Redemption as at 31.12.2018	**12 599**	**0**	**0**	**0**	**0**	**6 359**	**0**	**18 958**
Impairments as at 01.01.2018	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Increases, due to:	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
- impairment loss								0
- other								0
Decreases, due to:	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
- reversal of impairments								0
- other								0
Impairments as at 31.12.2018	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net balance sheet value as at 31.12.2018	**6 634**	**3 187**	**0**	**0**	**0**	**1 695**	**0**	**11 516**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

The Company reviews annually the adopted periods of economic useful life on the basis of current estimates. In 2019, there were no significant changes in the depreciation rates applied by the Company. The manufacturing costs of an intangible asset are determined and capitalized in accordance with the accounting policy of the Company. 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 Company 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 2019 by PLN 797 thousand and in 2018 by PLN 1,318 thousand. In addition, in 2019 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 amount of the subsidy according to the contract
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
Total	**3 942**	**1 750**

Impairment losses in the period from 1 January 2019 to 31 December 2019 and from 1 January 2018 to 31 December 2018

In the presented period and in the previous period no impairment losses on intangible assets were recognised.

Ownership structure

	31.12.2019	31.12.2018
Own	12 220	11 516
Used under a rental, lease or other contract, including lease agreements	0	0
Total	**12 220**	**11 516**

GOODWILL ACQUIRED BY WAY OF A BUSINESS COMBINATION

The item was not recognized in the presented periods.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 15. INVESTMENT PROPERTY

Investment property measured at fair value

	31.12.2019	31.12.2018
Gross balance sheet value at the beginning of the period	**864**	**2 479**
Increases, due to:	***0***	***0***
acquisition of the property as a result of a business combination		
acquisition of the property		
capitalised later investments		
net profit resulting from fair value measurement		
other increases		
Decreases, due to:	***864***	***1 615***
disposal of the property		
reclassification from and to another asset category	864	1 615
net loss resulting from fair value measurement		
other decreases		
Closing balance	**0**	**864**

Unrealised profits/losses for the period recognised in the profit and loss account (other operating income/costs item)	0	0

The table below presents the value of revenues and direct costs associated with the lease of investment property realised in 2019 and 2018.

	01.01-31.12.2019	01.01-31.12.2018
Revenues from the lease of investment property	9	110
Direct costs related to the lease of investment property	5	64
Profit/(loss) on lease of investment property	**4**	**46**

Note 16. INVESTMENTS IN SUBORDINATED UNDERTAKINGS

Investments in subordinated undertakings measured at cost

Shares in subordinated undertakings	31.12.2019	31.12.2018
Subsidiary undertakings	5 937	5 436
Jointly controlled subsidiary undertakings	0	0
Affiliated undertakings	0	0

Change in investments in subsidiary undertakings

	31.12.2019	31.12.2018
Opening balance	**5 436**	**5 436**
Increase in the reporting period, due to	***501***	***0***
business combination		
acquisition of an entity	501	
Reclassification		
other increases		
Decrease in the reporting period, due to	***0***	***0***
Disposal of a subsidiary		
Reclassification		
other decreases		
Closing balance	**5 937**	**5 436**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Investments in subsidiary undertakings as at 31 December 2019

Company name, legal form, location of the registered office	Value of shares at purchase price	Revaluation adjustments	Carrying amount of shares	Percentage of shares held	Percentage of votes held	Consolidation method
LSI Software s.r.o. – Praha, Czech Republic	539	0	539	100%	100%	full method
GiP Sp. z o.o. – Łódź, Poland	4 653	0	4 653	100%	100%	full method
Positive Software USA LLC – Schaumburg, USA	745	0	745	100%	100%	full method

Equity	Share capital	Other reserves	Net profit / loss	Assets	Fixed assets	Current assets	Liabilities	Revenues
311	531	0	-155	503	409	94	192	73
2 350	106	3 125	1 188	3 607	711	2 895	876	7 259
87	745	0	-185	126	109	17	0	0

Investments in subsidiary undertakings as at 31 December 2018

Company name, legal form, location of the registered office	Value of shares at purchase price	Revaluation adjustments	Carrying amount of shares	Percentage of shares held	Percentage of votes held	Consolidation method
LSI Software s.r.o. – Praha, Czech Republic	38	0	38	100%	100%	full method
GiP Sp. z o.o. – Łódź, Poland	4 653	0	4 653	100%	100%	full method
Positive Software USA LLC – Schaumburg, USA	745	0	745	100%	100%	full method

Equity	Share capital	Other reserves	Net profit / loss	Assets	Fixed assets	Current assets	Liabilities	Revenues
-129	30	0	14	196	92	104	324	166
2 280	106	3 125	1 120	3 616	821	2 795	456	7 216
272	745	0	-272	272	121	151	0	6

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Investments in jointly controlled subsidiary undertakings and affiliated undertakings as at 31 December 2019

Company name, legal form, location of the registered office	Value of shares at purchase price	Revaluation adjustments	Carrying amount of shares	Percentage of shares held	Percentage of votes held	Consolidation method
BluePocket S.A. – Rzeszów, Poland	2 307	2 307	0	50%	50%	Loss of control

Investments in jointly controlled subsidiary undertakings and affiliated undertakings as at 31 December 2018

Company name, legal form, location of the registered office	Value of shares at purchase price	Revaluation adjustments	Carrying amount of shares	Percentage of shares held	Percentage of votes held	Consolidation method
BluePocket S.A. – Rzeszów, Poland	2 307	2 307	0	50%	50%	Loss of control

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 17. OTHER FIXED ASSETS

In the years 2018-2019, the item was not recognised.

Note 18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

In the years 2018 - 2019 the Company did not hold any financial assets classified as held for sale.

Note 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In the years 2018-2019, the item was not recognised.

Note 20. OTHER FINANCIAL ASSETS

Short-term investments	31.12.2019	31.12.2018
Loans granted, including to:	0	235
- Management and Supervisory Boards	0	235
TOTAL	**0**	**235**

Loans granted

	31.12.2019	31.12.2018
Loans granted, including to:	0	235
- Management and Supervisory Boards	0	235
Impairment loss	0	0
Net amount of loans granted	**0**	**235**
- long-term	0	0
- short-term	0	235

Loans granted, including to the Management Board:

Borrower	Loan amount according to agreement	Carrying amount	interest rate		Repay ment date	Collateral
			nominal	effective		
As at 31.12.2019	**0**	**0**				
As at 31.12.2018	**240**	**235**				
Grzegorz Siewiera	240	235	3,00%	3,00%	28-02-2018	promissory note

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Change in financial instruments

01.01 – 31.12.2019	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**	**235**	**0**	**0**
Increases	***0***	***0***	***0***	***2***	***0***	***0***
Interest accrued at the effective interest rate				2		
Decreases	***0***	***0***	***0***	***237***	***0***	***0***
Repayment of loans granted				237		
Closing balance	**0**	**0**	**0**	**0**	**0**	**0**

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***
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**

Cash flow hedges

	Financial assets	
	31.12.2019	31.12.2018
Opening balance of fair value	**0**	**0**
Disposal, release, repayment	0	0
Closing balance of fair value	**0**	**0**
- long-term	0	0
- short-term	0	0

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Type of transaction	Date of transaction	Duration of transaction	Basic amount	Fair value
As at 31.12.2018				**-21**
Forward valuation in USD	05.11.2019	10.01.2020	77	-4
Forward valuation in USD	18.11.2019	21.01.2020	117	-10
Forward valuation in USD	18.11.2019	21.01.2020	73	-7
As at 31.12.2019				**-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

Result on cash flow hedges recognized directly in comprehensive income

	31.12.2019	31.12.2018
Accumulated result on cash flow hedges – opening balance	**-6**	**-9**
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	-15	3
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	**-21**	**-6**

Note 21. 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.

	31.12.2019	31.12.2018
Goods	4 813	2 919
Gross inventory	**4 813**	**2 919**
Impairment loss	224	224
Net inventory, including:	**4 589**	**2 695**
- the carrying amount of inventories recognized in the fair value less selling costs	0	0
- the carrying amount of inventory pledged as security for liabilities	0	0

Inventory in the period from 01.01 to 31.12.2019

	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	442	**442**
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**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Changes in impairment loss on inventory

	Impairment of materials	Impairment of semi-finished products and production in progress	Impairment of finished products	Impairment of goods	Impairment of inventory - total
As at 01.01.2019	**0**	**0**	**0**	**224**	**224**
Increases:	***0***	***0***	***0***	***0***	***0***
recognition of an impairment loss in relation to other operating costs					0
Decreases, including:	***0***	***0***	***0***	***0***	***0***
release of an impairment loss in relation to other operating costs					0
As at 31.12.2019	**0**	**0**	**0**	**224**	**224**
As at 01.01.2018	**0**	**0**	**0**	**224**	**224**
Increases, including:	***0***	***0***	***0***	***0***	***0***
recognition of an impairment loss in relation to other operating costs					0
Decreases, including:	***0***	***0***	***0***	***0***	***0***
release of an impairment loss in relation to other operating costs					0
As at 31.12.2018	**0**	**0**	**0**	**224**	**224**

Inventory aging analyses in the period 01.01 – 31.12.2019

	Overdue payments in days				Total
	0-90	91-180	181-360	>360	
Goods (gross)	2 262	1 214	869	468	**4 813**
Goods (impairment)	0	0	0	224	**224**
Goods (net)	**2 262**	**1 214**	**869**	**244**	**4 589**

The reason for the recognition of an impairment of inventory is its accumulation for over a year 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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 22. CONTRACT FOR CONSTRUCTION SERVICES

Item was not recognized.

Note 23. TRADE RECEIVABLES

	31.12.2019	31.12.2018
Trade receivables	**13 685**	**8 525**
- from associates	168	230
- from other undertakings	13 517	8 295
Impairment (positive value)	1 322	1 943
Gross trade receivables	**15 007**	**10 468**

Trade and other receivables are not interest-bearing and usually have a 14-day payment period. The Company 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

	31.12.2019	31.12.2018
Associates		
Impairment loss on trade receivables – opening balance	**68**	**0**
Increases, including:	***0***	***68***
- on past due and disputable receivables	0	68
- linking the impairments in connection with the termination of the arrangement		
Decreases, including:	***0***	***0***
- use		
- release of impairment to in connection with the repayment of receivables		
- termination of proceedings		
Impairment loss on trade receivables – closing balance	**68**	**68**
Other undertakings		
Impairment loss on trade receivables – opening balance	**1 875**	**1 931**
Increases, including:	***30***	***85***
- on past due and disputable receivables	30	85
- linking the impairments in connection with the termination of the arrangement		
Decreases, including:	***651***	***141***
- use		
- release of impairment to in connection with the repayment of receivables	651	141
- termination of proceedings		
Impairment loss on trade receivables – closing balance	**1 254**	**1 875**
Impairment loss on trade receivables – closing balance	**1 322**	**1 943**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Trade receivables claimed at court

	31.12.2019	31.12.2018
Trade receivables claimed at court	**1 322**	**1 943**
Impairment loss on disputable receivables	1 322	1 943
Net amount of trade receivables claimed at court	**0**	**0**

Note 24. OTHER RECEIVABLES

	31.12.2019	31.12.2018
Other receivables, including:	**909**	**1 109**
- taxes, with the exception of corporate income tax	1	108
-other	908	1 001
Impairment	0	0
Other receivables (gross)	**909**	**1 109**

	31.12.2019	31.12.2018
Other receivables, including:	**909**	**1 109**
From associates	0	0
From other undertakings	909	1 109
Impairment	0	0
Other receivables - gross	**909**	**1 109**

Note 25. PREPAYMENTS AND ACCRUED INCOME

	31.12.2019	31.12.2018
- property insurance and subscriptions to newspapers, other subscriptions and membership fees	135	173
- advance invoices	103	66
- other prepayments and accrued income	0	0
Prepayments and accrued income	**238**	**239**

Note 26. CASH AND CASH EQUIVALENTS

	31.12.2019	31.12.2018
Cash on hand and in bank accounts:	**1 973**	**673**
on hand	192	184
in bank accounts	1 781	489
Cash equivalents	**2 480**	**4 725**
Cash in transit	0	0
Overnight deposits	2 480	4 725
Other cash assets:	**0**	**0**
Cash on hand and in bank accounts attributed to discontinued operations	**0**	**0**
Total	**4 453**	**5 398**

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 Company's current cash requirements and bear the relevant interest. The fair value of cash and cash equivalents as at 31 December 2019 amounts to PLN 4,453 thousand (31 December 2018: PLN 5,398 thousand).

Cash and cash equivalents with limited disposability	31.12.2019	31.12.2018
Performance bond	0	25
Total	**0**	**25**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

As at 31 December 2019, the Company had unused credit facilities in the amount of PLN 1,500 thousand (31 December 2018: PLN 1,500 thousand), in relation to which all the conditions precedent have been met.

Cash at disposal of the entity, not recognised in the balance sheet item	31.12.2019	31.12.2018
Social benefits fund	0	0
Available, unused cash under revolving credit	1 500	1 500
TOTAL	**1 500**	**1 500**

Note 27. SHARE CAPITAL

	31.12.2019	31.12.2018
Number of shares	3 260 762	3 260 762
Nominal value of shares	1 PLN	1 PLN
Share capital	**3 261**	**3 261**

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 PLN	600	cash	09-1998
B-series, registered	5 votes	-	400	1 PLN	400	contribution	09-1999
C-series, registered	-	-	46	1 PLN	46	cash	09-1999
C-series, registered	-	-	29	1 PLN	29	cash	09-1999
D-series, registered	-	-	268	1 PLN	268	cash	09-1999
E-series, registered	-	-	236	1 PLN	236	cash	08-2000
F-series, registered	-	-	59	1 PLN	59	cash	08-2000
G-series, registered	-	-	428	1 PLN	428	cash	07-2006
I-series, registered	-	-	1 000	1 PLN	1 000	cash	03-2007
J-series, registered	-	-	195	1 PLN	195	cash	06-2008

As at date of publication of the report hereof, 400 thousand 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 thousand votes held by Grzegorz Siewiera. The shares of all series are equally preferred as to dividends and return on equity.

Share capital as at 31 December 2019 – structure, continuation

Shareholder	Number of shares	% of share capital	Number of votes	% of votes
SG Invest Sp. z o.o. / Grzegorz Siewiera	1 000 000	30,67%	2 600 000	53,49%
Yavin Limited / Piotr Kraska	472 556	14,49%	472 556	9,72%
Rockbridge Towarzystwo Funduszy Inwestycyjnych S.A.	286 395	8,78%	286 395	5,89%
Inmuebles Polo SL	250 000	7,67%	250 000	5,14%
Other shareholders	1 201 326	36,84%	1 201 326	24,71%
LSI Software S.A. (own shares)	50 485	1,55%	50 485	1,04%
Total	**3 260 762**	**100,00%**	**4 860 762**	**100,00%**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Change in share capital

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Share capital – opening balance	**3 261**	**3 261**
Increases, due to:	***0***	***0***
Decreases, due to:	***0***	***0***
Share capital – closing balance	**3 261**	**3 261**

All shares issued have a nominal equal to PLN 1 and have been fully paid up.

Note 28. SUPPLEMENTARY CAPITAL

Supplementary capital was established from the share premium in the amount of PLN 9,615 thousand, which was reduced by the share issue costs recognized as a decrease in the supplementary capital. Furthermore, the supplementary capital was established from statutory write-offs from the profit generated in the previous financial years in the amount of PLN 1,425 thousand, as well as from the surplus of profit distribution over the statutory write-off in the amount of PLN 16,063 thousand.

In accordance with the requirements of the Commercial Companies Code, the Company is obliged to create a supplementary capital to cover losses. At least 8% of the profit for a given financial year disclosed in the Company's financial statement is transferred to this category of capital until the capital reaches at least one third of the share capital. As a result of exceeding the balance of supplementary capital by the value of 1/3 of the share capital, the aforementioned statutory obligation to make profit contributions to the supplementary capital expired. The General Meeting shall decide on the use of the supplementary capital, including the reserve capital. Moreover, it should be mentioned that none of the credit covenants imposed on the Company is currently connected with a requirement to maintain a certain level of equity.

Note 29. OWN SHARES (TREASURY SHARES)

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Opening balance	**-609**	**-150**
acquired during the period	0	-459
other changes - sale	0	0
Closing balance	**-609**	**-609**

Note 30. OTHER RESERVES

	31.12.2019	31.12.2018
Supplementary capital	27 103	23 208
Revaluation reserve	0	0
Other reserves (buy-back of own shares)	2 060	2 060
TOTAL	**28 554**	**25 268**

Change in other reserves

	Statutory capital reserve	Revaluation reserve	Reserve capital	TOTAL
01.01.2019	**23 208**	**0**	**2 060**	**25 268**
Increases in the period:	***3 895***	***0***	***0***	**3 895**
Changes in accounting principles (policy)				0
Distribution/coverage of net profit/loss	3 895			3 895
Decreases in the period:	***0***	***0***	***0***	**0**
31.12.2019	**27 103**	**0**	**2 060**	**29 163**
01.01.2018	**18 353**	**0**	**2 060**	**20 413**
Increases in the period:	***4 855***	***0***	***0***	**4 855**
Distribution/coverage of net profit/loss	4 855			**4 855**
Decreases in the period:	***0***	***0***	***0***	**0**
31.12.2018	**23 208**	**0**	**2 060**	**25 268**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 31. RETAINED EARNINGS

The retained earnings include the correction of errors in 2017, which is related to an incorrect calculation of corporate income tax.

	31.12.2019	31.12.2018
Correction of prior period errors	-78	-78
TOTAL	**-78**	**-78**

Note 32. CREDIT FACILITIES AND LOANS

	31.12.2019	31.12.2018
Overdrafts	0	0
Credit facilities	1 392	1 548
Total of credit facilities and loans, including:	**1 392**	**1 548**
- long-term	790	1 080
- short-term	602	468

Maturity structure of credit facilities and loans

	31.12.2019	31.12.2018
Short-term credit facilities and loans	602	468
Long-term credit facilities and loans	790	1 080
- payable within 1 year – 3 years	781	928
- payable within 3 years – 5 years	9	153
- payable within more than 5 years	0	0
Credit facilities and loans, total	**1 392**	**1 548**

Credit facilities and loans – as at 31.12.2019

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	1 500	0	Wibor + bank's margin	26.09.2019	Contractual joint mortgage on immovable property
mBank S.A. – investment facility	1 750	729	Wibor + bank's margin	31.01.2022	Contractual joint mortgage on immovable property
mBank S.A. – investment facility	575	354	Wibor + bank's margin	31.01.2023	Contractual joint mortgage on immovable property
mBank S.A. working capital facility	400	309	Wibor + bank's margin	31.03.2022	promissory note
TOTAL	**4 225**	**1 392**			

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	1 500	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	**3 825**	**1 548**			

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Currency structure of credit facilities and loans

	31.12.2019		31.12.2018	
	Value in currency	Value in PLN	Value in currency	Value in PLN
PLN	1 392	1 392	1 548	1 548
Credit facilities and loans, total	**x**	**1 392**	**x**	**1 548**

Note 33. OTHER FINANCIAL LIABILITIES

	31.12.2019	31.12.2018
Lease liabilities	3 317	959
Liabilities arising from the acquisition of shares	0	0
Cash flow hedges	21	6
Total financial liabilities	**3 338**	**965**
- long-term	2 630	422
- short-term	708	543

Lease liabilities

	31.12.2019	31.12.2018
Short-term lease liabilities	687	537
Long-term lease liabilities, including:	2 630	422
- 1 year – 5 years	2 630	422
- over 5 years	0	0
Lease liabilities, total	**3 317**	**959**

Cash flow hedges

	31.12.2019	31.12.2018
Fair value – opening balance	**6**	**9**
Acquisition, recognition, commitment	21	6
Disposal, dissolution, repayment	6	9
Fair value – closing balance	**21**	**6**
- long-term	0	0
- short-term	21	6

Type of transaction	Date of transaction	Duration of transaction	Basic amount	Fair value
As at 31.12.2019				**21**
Forward valuation in USD	05.11.2019	10.01.2020	77	4
Forward valuation in USD	18.11.2019	21.01.2020	117	10
Forward valuation in USD	18.11.2019	21.01.2020	73	7
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

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Result on cash flow hedges recognized directly in comprehensive income

	31.12.2019	31.12.2018
Accumulated result on cash flow hedges – opening balance	**-6**	-9
The amount recognized in comprehensive income during the reporting period on account of effective hedging transactions		
Valuation recognized in the profit and loss account	-15	3
Amount transferred from comprehensive income to the profit and loss account during the financial period		
Result on cash flow hedges accumulated in the comprehensive income – closing balance	**-21**	**-6**

Note 34. OTHER LONG-TERM LIABILITIES

The item was not recognized.

Note 35. TRADE LIABILITIES

Trade Liabilities

	31.12.2019	31.12.2018
Trade Liabilities	**8 666**	**5 451**
To associates	610	560
To other undertakings	8 056	4 891

Trade liabilities – past-due structure

	Total	Not past-due	Past-due, but recoverable				
			< 60 days	61 – 90 days	91 – 180 days	181 – 360 days	>360 days
31.12.2019	**8 666**	**4 391**	**2 945**	**182**	**33**	**25**	**1 090**
To associates	610	153	280	154	0	23	0
To other undertakings	8 056	4 238	2 665	28	33	2	1 090
31.12.2018	**5 451**	**2 432**	**1 561**	**272**	**111**	**1**	**1 074**
To associates	560	176	27	272	84	1	0
To other undertakings	4 891	2 256	1 534	0	27	0	1 074

Note 36. OTHER LIABILITIES

Other short-term liabilities

	31.12.2019	31.12.2018
Liabilities due to other taxes, duties, social insurance and other, except corporate income tax	**1 449**	**1 529**
Other liabilities	**644**	**932**
- liabilities to employees on account of remunerations	602	550
- other liabilities	42	382
Other liabilities, total	**2 093**	**2 461**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 37. SOCIAL PROPERTY, INVESTMENT LIABILITIES 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 Company has such a fund and makes periodic write-offs in the amount of basic deductions / amounts agreed with the trade unions. The purpose of the Fund is to subsidize the Company's social activities, loans granted to its employees and other social costs. The Company has offset the Fund's assets with its liabilities to the Fund as these assets are not the Company's separate assets.

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

	31.12.2019	31.12.2018
Fixed assets contributed to the Fund	0	0
Loans granted to employees	0	0
Cash	45	27
Liabilities arising from the Fund	34	27
Balance after offsetting	**11**	**0**
Allowances for the Fund during the accounting period	**45**	**27**

Investment liabilities

As at 31 December 2018 and 31 December 2019 the item was not recognized.

Note 38. CONTINGENT LIABILITIES

	31.12.2019	31.12.2018
Loan repayment guarantee	500	500
Liabilities due to bank guarantees granted mainly as security for the performance of business contracts	2 072	2 048
Contingent liabilities, total	**2 572**	**2 548**

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 2020
2. AmRest Sp. z o.o. – in the amount of PLN 120 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.

The total value of guarantees and sureties granted by the Company as at 31 December 2019 amounts to PLN 2,572 thousand.

Contingent liabilities arising on guarantees and sureties granted

	Guarantee/surety granted to:	On account of	Currency	31.12.2019	31.12.2018
Surety for overdraft facility	GiP Sp. z o.o.	Credit facility	PLN	500	500
Performance bond	POSIFLEX TECHNOLOGY INC	Guarantee	USD	450	450
Guarantee of payment of liabilities under a lease agreement	AmRest Sp. z o.o.	Guarantee	PLN	120	111
Bank guarantee	CaixaBank S.A.	Guarantee	EUR	57	57
			Total	**1 127**	**1 118**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 39. SHORT-TERM AND LONG-TERM FINANCIAL LEASE RECEIVABLES AND LIABILITIES

As at 31 December 2019 and 31 December 2018, 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

	31.12.2019		31.12.2018	
	Minimum payments	Present value of the payments	Minimum payments	Present value of the payments
In the period of 1 year	687	687	537	537
In the period of 1 year to 5 years	2 630	2 630	422	422
Over 5 years				
Total minimum lease payments	**3 317**	**3 317**	**959**	**959**
Future interest expense	2 323	X	50	X
Present value of minimum lease payments, including:	**994**	**3 317**	**909**	**959**
- short-term		687		537
- long-term		2 630		422

Leased assets as at 31.12.2019

	For asset classes				Total
	Land, buildings and structures	Machinery and equipment	Means of transport	Other fixed assets	
Means of transport	0	0	1 320	0	1 320
Machinery and equipment	0	22	0	0	22
Right of use assets	2 344	0	0	0	2 344
Net carrying amount of leased assets	**2 344**	**22**	**1 320**	**0**	**3 686**

Note 40. PREPAYMENTS AND DEFERRED INCOME

	31.12.2019	31.12.2018
Deferred income	**46**	**89**
Subsidies	6	39
Advance invoices	40	50
Prepayments and deferred income, including:	**46**	**89**
- long-term	0	0
- short-term	46	89

Note 41. PROVISION FOR RETIREMENT AND SIMILAR BENEFITS

The Company pays out retirement benefits to retired employees in the amount set forth in the Labor Code. As a result, the Company, 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:

	31.12.2019	31.12.2018
Provisions for retirement and disability benefits	3	2
Total, including:	**3**	**2**
- long-term	1	1
- short-term	2	1

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Change in provisions

	Provisions for retirement and disability benefits	Provisions for jubilee awards	Provisions for other employee benefits
As at 01.01.2019	**2**	**0**	**0**
Recognition	1	0	0
Release	0	0	0
As at 31.12.2019, including:	**3**	**0**	**0**
- long-term	1	0	0
- short-term	2	0	0
As at 01.01.2018	**2**	**0**	**0**
Recognition	0	0	0
Release	0	0	0
As at 31.12.2018, including:	**2**	**0**	**0**
- long-term	1	0	0
- short-term	1	0	0

Note 42. OTHER PROVISIONS

	31.12.2019	31.12.2018
Provision for annual leaves	67	66
Provision for costs of court proceedings	32	32
Total, including:	**99**	**98**
- long-term	0	0
- short-term	99	98

Change in provisions

	Provision for annual leaves	Restructuring provision	Other provisions	Total
As at 01.01.2019	**66**	**0**	**32**	**98**
Recognition	67	0	0	67
Release	66	0	0	66
As at 31.12.2019, including:	**67**	**0**	**32**	**99**
- long-term	0	0	0	0
- short-term	67	0	32	99
As at 01.01.2018	**79**	**0**	**100**	**179**
Recognition	66	0	0	66
Release	79	0	68	147
As at 31.12.2018, including:	**66**	**0**	**32**	**98**
- long-term	0	0	0	0
- short-term	66	0	32	0

Note 43. 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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

The Company also monitors the market price risk arising from all financial instruments held.

Exposure to market risk

Financial assets and liabilities 31.12.2019	Exposure to market risk		
	Currency		Interest rate
	EUR	USD	
Loans and receivables	0	0	0
Financial liabilities at fair value through profit or loss	0	0	4 730
Hedging instruments - liabilities	0	267	0

Financial assets and liabilities 3131.12.2018	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	2 513
Hedging instruments - liabilities	0	226	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 148 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 15 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
	31.12.2019 + 10%/- 10%		31.12.2018 + 10%/- 10%	
Assets measured at amortized cost, including:				
- loans granted			+/- 1	
- trade and other receivables	+/- 137		+/- 85	
Assets measured at amortized cost, including:				
- credit and loans received	+/- 13		+/- 7	
- trade and other liabilities	+/- 87		+/- 55	

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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

About 20% 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 2019, the Company hedged 100% of purchase transactions in foreign currencies (as at 31 December 2018 - 100%), in respect of which, as at the balance sheet date, there were firm commitments reaching the end of the first quarter of 2020. 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 2019	Impact on gross financial result	Impact on equity	Impact on gross financial result	Impact on equity
	EUR + 10%/- 10%*		USD + 10%/- 10%	
Hedging instruments - liabilities			+/- 101	

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%	
Hedging instruments - liabilities			+/- 85	

Commodity price risk

Because of the significant share of purchases of commercial goods outside the territory of Poland, the Company 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 Company 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 Company to the risk of bad debts is limited. With regard to other financial assets of the Company, such as cash and cash equivalents, available-for-sale financial assets and certain derivatives, the Company'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 44. There are no significant concentrations of credit risk in the Company.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Past-due trade receivables

	Total	Not past-due	Past-due (in days)			
			< 90 days	91 –180 days	181 – 360 days	>360 days
31.12.2019						
Trade and other receivables	15 007	9 831	2 233	423	268	2 252
Impairment loss	1 322	0	0	0	0	1 322
Other receivables	909	909	0	0	0	0
Impairment loss	0	0	0	0	0	0
Loans granted	0	0	0	0	0	0
Impairment loss	0	0	0	0	0	0
Cash and cash equivalents	4 453	4 453	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
Impairment loss	0	0	0	0	0	0
31.12.2018						
Trade and other receivables	10 468	5 238	1 801	177	346	2 906
Impairment loss	1 943	0	0	0	0	1 943
Other receivables	1 109	1 109	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	5 398	5 398	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 Company monitors 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 (e.g. accounts receivables, other financial assets) and projected cash flows from operating activities. The Company'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 2019 and as at 31 December 2018 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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

	At the request	Up to 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
31 December 2019	**0**	**11 081**	**967**	**3 420**	**0**
Interest-bearing loans	0	150	452	790	0
Convertible preference shares	0	172	515	2 630	0
Trade and other liabilities	0	10 759	0	0	0
Derivatives	0	0	0	0	0
31 December 2018	**0**	**8 162**	**755**	**1 502**	**0**
Interest-bearing loans	0	116	352	1 080	0
Convertible preference shares	0	134	403	422	0
Trade and other liabilities	0	7 912	0	0	**0**
Derivatives	0	0	0	0	0

Note 44. 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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

FINANCIAL ASSETS	Carrying amount		Fair value		Maximum exposure to credit risk *	Category of financial instrument
	31.12.2019	31.12.2018	31.12.2019	31.12.2018		
Trade and other receivables	**14 613**	**9 713**	**14 613**	**9 713**	**1 461**	Receivables
Other financial assets (short-term), including:	**0**	**235**	**0**	**235**	**0**	
- loans granted	0	235	0	235	0	Loans granted
Cash and cash equivalents, including	**4 453**	**5 398**	**4 453**	**5 398**	**0**	
- cash	4 453	5 398	4 453	5 398	0	Cash

FINANCIAL LIABILITIES	Carrying amount		Fair value		Category of financial instrument
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	
Interest-bearing credits and loans, including:	**1 392**	**1 548**	**1 392**	**1 548**	
- long-term, at floating interest rate*	790	1 080	790	1 080	Credit
- overdraft facility	0	0	0	0	Credit
- other – short-term	602	468	602	468	Credit
Other liabilities (long-term), including:	**2 630**	**959**	**2 630**	**959**	
- arising on financial lease agreements and hire-purchase agreements	2 630	959	2 630	959	Lease
Trade and other liabilities	**10 759**	**7 912**	**10 759**	**7 912**	Other liabilities
Financial liabilities, including:	**21**	**6**	**21**	**6**	
- other financial liabilities at fair value through profit or loss	21	6	21	6	Forward contracts

(All amounts are expressed in PLN thousand, unless otherwise indicated)

The Issuer has 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 31.12.2019 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 Company does not apply hedge accounting except for foreign exchange forward for USD. Detailed parameters of contracts concluded as at 31 December 2019 are presented in note 33.

Cash flow hedges

As at 31 December 2019, the Company held the following hedging contracts:

	Maturity	Exchange rate
Sale		
Purchase		
USD forward exchange contract	10.01.2020	3,8436
USD forward exchange contract	21.01.2020	3,8771
USD forward exchange contract	21.01.2020	3,8773

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

The fair value of the above contracts was as follows:

	31.12.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Forward exchange contract	1 014	1 035	848	854
Fair value		21		6

Note 45. 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 2019 and 31 December 2018, no changes were introduced to the objectives, principles and processes in force in this area. The Company 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 2019 and 2018, the above ratio remains below the expected range due to the fact that the Company did not use the available overdraft facilities in the amount of PLN 1,500 thousand.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

	31.12.2019	31.12.2018
Interest-bearing loans	1 392	1 548
Trade and other liabilities excluding income tax liabilities	10 759	7 912
Less cash and cash equivalents	4 453	5 398
Net debt	**7 698**	**4 062**
Convertible preference shares	0	0
Equity	38 115	33 343
Reserve capital from unrealized net gains	0	0
Total equity	**38 115**	**33 343**
Net equity and net debt	**45 813**	**37 405**
Leverage ratio	17%	11%

Note 46. EMPLOYEE BENEFIT PLANS

The Company did not implement an employee share scheme.

Note 47. INFORMATION ON ASSOCIATES

The following table shows the total amounts of transactions with associates for the current and previous financial year. The analysis of impairment losses on receivables from associated undertakings is presented in Note 23.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Associate	Sale to associates		Purchases from associates		Receivables from associates		including past-due		Liabilities towards associates		including past-due	
Dominant Entity	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
LSI Software S.A.	986	1 302	1 918	1 077	168	230	131	146	650	599	434	383
Subsidiary undertakings												
LSI Software s.r.o.	36	100	322	84					131	230	131	146
GiP Sp. z o.o.	1 504	551	748	1 266	611	560	434	383	9	9		
Positive Software USA LLC		6		6					37			
Management Boards of Group's companies												
LSI Software S.A.												
Bartłomiej Grduszak	156	156	3	4	16	16						
Michał Czwojdziński	228	264			23	23						
Grzegorz Strąk	91	62	4	4	9	9						
GiP Sp. z o.o.												
Michał Czwojdziński												
Bartłomiej Grduszak												
Leszek Guzowski												
LSI Software s.r.o.												
Michał Czwojdziński												
Bartłomiej Grduszak												
Grzegorz Siewiera												
Positive Software USA LLC												
Grzegorz Siewiera												

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Group's Dominant Entity
LSI Software S.A.

Entity with significant influence on the Group
As at 31 December 2019, SG Invest Sp. z o.o., in which Mr. Grzegorz Siewiera is the sole shareholder, held 30.67% of ordinary shares in LSI Software S.A. (31 December 2018: 30.67%).

Affiliated undertaking
As at 31 December 2019, the Group has no affiliated undertakings.

Joint ventures in which the Company is a partner:
As at 31 December 2019 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 arm's length conditions used for transactions with other entities.

Loan granted to a Member of the Management Board
In 2019, 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 loan was repaid in 2019 and was a short-term financial asset.

Other transactions with members of the Management Board
In the financial year ended on 31 December 2019, the purchase transactions between the Group and members of the Management Board of the Group were concluded in the total amount of PLN 475 thousand (in the financial year ended 31 December 2018 the value of these transactions amounted to PLN 482 thousand). The subject transactions concerned the provision of managerial services.

Note 48. REMUNERATION OF KEY MANAGEMENT PERSONNEL AND SUPERVISORY BOARD

Remuneration paid or due to members of the Management Board and members of the Supervisory Board of the Company

Benefits paid to members of the Management Board

	01.01 -31.12.2019	01.01 -31.12.2018
Short-term employee benefits (remunerations and surcharges)	495	439
Other long-term benefits	0	0
TOTAL	**495**	**439**

	Position	01.01-31.12.2019	01.01-31.12.2018
Remuneration of Members of the Management Board			
Bartłomiej Grduszak	President of the Management Board	111	75
Michał Czwojdziński	Vice-President of the Management Board	111	82
Henryk Nester	Member of the Management Board	0	10
Grzegorz Strąk	Member of the Management Board	245	244
TOTAL		**467**	**411**
Remuneration of Members of the Supervisory Board			
Maciej Węgierski	Member	6	3
Piotr Kraska	Member	6	6
Andrzej Kurkowski	Member	6	6
Grzegorz Kwiatkowski	Member	0	2
Krzysztof Wolski	Vice-Chairman	10	9
Grzegorz Siewiera	Chairman	16	16
TOTAL		**44**	**42**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 49. EMPLOYMENT

Average employment

	01.01 -31.12.2019	01.01 -31.12.2018
Management Board	1	1
Administration	11	8
Sales Department	37	36
Production Division	51	41
Other	49	50
TOTAL	**149**	**136**

Employment turnover

	01.01 -31.12.2019	01.01 -31.12.2018
The number of recruits	72	30
Number of redundant employees	46	48
TOTAL	**26**	**-18**

Note 50. OPERATING LEASE AGREEMENTS

The Company concludes 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 51. CAPITALIZED BORROWING COSTS

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

Note 52. COURT PROCEEDINGS

No proceedings are pending, the value of which amounts to at least 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 first instance judgment adjudicating the amount of PLN 471 thousand. An appeal filed by the plaintiffs is pending.

Note 53. 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 Company's tax settlements may be increased by additional tax liabilities. According to the Management Board of the Company, as at 31 December 2019, adequate provisions were recognised for identified and quantifiable tax risks.

Note 54. 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. As from 1 January 2009 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 recognise 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 55. EVENTS AFTER BALANCE SHEET DATE

With reference to the Financial Supervision Authority's recommendations of 12 March 2020, the Management Board of LSI Software SA disclosed information on the possible impact of the spread of SARS-CoV-2 coronavirus and COVID-19 disease on the Company's operations and financial results in current report no. 10/2020 of 25 March 2020. The Management Board of the Company continuously monitors the development of the situation associated with the persistent effects of the spread of coronavirus and the COVID-19 disease and their impact on the activities of the Issuer.

As at the date of this report, the Company runs its business activities and takes all steps to maintain the highest possible scale of operations and quality of work. All the guidelines recommended by the Chief Sanitary Inspectorate and other state institutions in the countries of the Issuer's operations have been implemented, with particular emphasis on the recommendations concerning employee safety, health and hygiene. Foreign business trips were suspended and direct contacts of employees within the organization were limited. Participation in fairs and conferences, both domestic and foreign, was cancelled. Remote working mode was also launched on a large scale. In business contacts, remote communication methods are commonly used.

The effects of the spread of coronavirus and actions taken by the Polish authorities in order to prevent the epidemic will have a negative impact on the operating activity of the Issuer and the financial results of the Company for the first and subsequent quarters of 2020. The measures taken by the individual countries in which the Company conducts its operations will also significantly affect the level of revenue from foreign sales.

Recommendations and prohibitions issued by the state authorities concerning restrictions on movement and business activities may cause a temporary decrease in revenue from the sale of services and products offered, but the value of such a decrease cannot be estimated at the time of publication of this report. The financial results achieved in the coming periods will also be affected by:

- duration of the epidemic,
- further administrative restrictions on the functioning of individual countries,
- restrictions imposed on entrepreneurs,

- the possibility of using aid packages launched by individual countries.

The Company's Management Board has not yet identified any significant disruptions in the execution of the concluded contracts, however, the situation related to the coronavirus may cause some delay in the performance of those parts of the projects the initiation phases of which were to start in the first and second quarter of 2020. Temporary disruptions in the supply chains of goods necessary for the Issuer's activity, which occurred in March and April 2020, have been eliminated. At the moment of publication of this report, all departments of the Company operate on an ongoing basis and perform their contractual obligations within the deadlines specified in the agreements.

It is important to bear in mind the risk of unavailability of members of production teams due to coronavirus infection, which has been reduced due to the prompt switching to Home Office mode. The dispersed work does not rule out the possibility of individual infections, but significantly reduces them while eliminating the risk of mutual infections of team members.

The Company's Management Board also sees potential risks associated with global reduction or postponement of investment plans in most of the serviced industries and maintaining financial liquidity by some contractors particularly affected by the pandemic, such as HoReCa. The coronavirus pandemic may therefore have an impact on payment congestion and debt collection problems. The Company has taken actions to strengthen its credit policy and to shorten the receivables rotation cycle. The Management Board does not identify any circumstances justifying a change in the previously applied model of valuation of expected credit losses within receivables, based on a reserve matrix considering both historical data and identifiable future factors.

LSI Software S.A. has sufficient financial resources to continue its operations, including settlement of current liabilities. The company maintains a stable financial position, enabling a balanced approach to the challenges stemming from the ongoing crisis, and will constantly monitor the developments by adapting its business operations to the changing market environment. At present, there are also no threats associated with the violation of the terms of credit agreements and infringement of covenants imposed on the Company. However, in the event of a prolonged pandemic and its negative impact on the global economy, this situation may adversely affect the organisational and financial performance of the Company, and therefore the Issuer has effectively undertaken efforts to obtain various forms of public aid available, among others, as part of a package of solutions prepared by the government.

Until the date of preparation of the annual financial statement for 2019, there were no events which have not but should have been included in the books of account for the reporting period.

The above assessment has been prepared based on the best knowledge of the Company as at the date of this report. Given the situation of high uncertainty, including, but not limited to, the unknown duration of the pandemic and the fact that the changes observed so far in connection with the coronavirus pandemic have been very dynamic (including the reactions of individual governments), at the time of publication of this report it is not possible to reliably estimate the impact of the COVID-19 pandemic on the Company's results and its situation in the medium and long term.

Note 56. PARTICIPATION OF SUBSIDIARIES NOT COVERED BY THE CONSOLIDATED FINANCIAL STATEMENT

As at 31 December 2019 and 31 December 2018, 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 2014-2019.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Note 57. INFORMATION ON TRANSACTIONS WITH AN ENTITY PERFORMING AN AUDIT OF THE FINANCIAL STATEMENT

Remuneration paid or due for the financial year	01.01 -31.12.2019	01.01 -31.12.2018
- the audit of the annual financial statements and consolidated financial statements	48	48
- other assurance services, including the review of the financial statements and consolidated financial statements	34	34
- tax advisory services	0	0
- other services	0	0
TOTAL	**82**	**82**

Note 58. EXPLANATIONS TO THE CASH FLOW STATEMENT

	01.01 -31.12.2019	01.01 -31.12.2018
Cash recognized in the balance sheet	**4 453**	**5 398**
Foreign exchange differences on balance sheet valuation	**-68**	**-2**
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	**4 522**	**5 398**

	01.01 -31.12.2019	01.01 -31.12.2018
Amortisation:	**4 362**	**3 372**
amortisation of intangible assets	3 362	2 693
amortisation of fixed tangible assets	1 000	679
amortisation of investment property		
Interest and share in profits (dividends) consists of:	**-973**	**-199**
interest paid on loans contracted	47	59
interest paid on lease agreements	102	44
Interest received		
Interest on debt securities		
Interest paid on long-term receivables		
Dividends received	-1 120	-295
Interest accrued on loans contracted	-2	-7
Interest accrued on bank loans		
Profit (loss) on investing activities results from:	**-77**	**-73**
Revenues from the sale of intangible assets	0	
Net value of intangible assets sold	0	
Revenues from the sale of tangible fixed assets	-107	-140
Net value of sold tangible fixed assets	56	67
net value of liquidated fixed assets		
Revaluation of fixed assets		
Revaluation of short-term financial assets	-26	

The change in provisions results from the following items:	**417**	**-67**
Balance sheet change in provisions for liabilities	415	-54
Balance sheet change in provisions for employee benefits	2	-13
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:	**-1 895**	**37**
Balance sheet change in inventory	-1 895	37
Value of inventory acquired as a result of acquisition of control (inventory of a subsidiary at the date of acquisition of control with "-" mark)		
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:	**-4 922**	**-417**
Change in short-term receivables arising from the balance sheet	-4 922	-417
Change in long-term receivables arising from the balance sheet		
Correction by additional allocations to equity capital		
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:	**2 847**	**2 259**
Change in short-term liabilities resulting from balance sheet	2 792	-906
Correction by repaid credit	556	1 667
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	-501	1 498
Operating liabilities acquired as a result of acquisition of control (operating liabilities of a subsidiary at the date of acquisition of control with "-" mark)		

(All amounts are expressed in PLN thousand, unless otherwise indicated)

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:	**-19**	**-707**
subsidies received	-19	-707
cancelled borrowings		

Note 59. INFORMATION CONCERNING THE MERGER OF COMPANIES

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. LSI Software SA held 100% of shares in the share capital 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. The general principle of applying the pooling of interests method is to aggregate individual items of assets and liabilities as well as revenues and costs of the merged companies, as at the merger date, after adjusting their value to unified valuation methods and making mutual exclusions. The financial statements of the Company to which the assets of the acquired Company are transferred include comparative data for the previous financial year, determined as if the merger had taken place at the beginning of the previous reporting period.

The table below sets forth the restatement of the statement of financial position, income statement, changes in equity and cash flow statement for the previous reporting period resulting from the merger of the above-mentioned companies. The data presented for individual companies result from the approved financial statements of the merging companies for the previous period, transformed from Polish accounting standards to IFRS. The impact of the above-described adjustments arising from the application of the pooling of interests method is presented in the tables below in the column: “Adjustments resulting from the merger”. The last column contains restated (adjusted) data made comparable. Subsequently, revenues, costs and changes in equity of the merged companies for the period from the beginning of the financial year in which the merger took place to the merger date are presented.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Statement of financial position

ASSETS	Softech Sp. z o.o 31.12.2017.	LSI Software S.A. 31.12.2017	Companies - jointly	Adjustments resulting from the merger	Comparative data 31.12.2017
Fixed assets	**5 603**	**24 398**	**30 001**	**-5 050**	**24 951**
Fixed tangible assets	593	4 892	5 485	0	5 485
Intangible assets	4 828	5 851	10 679	0	10 679
Investment property	0	2 479	2 479	0	2 479
Investments in associates	0	10 486	10 486	-5 050	5 436
Financial assets available for sale	0	0	0	0	0
Other financial assets	0	0	0	0	0
Deferred tax assets	182	690	872	0	872
Other fixed assets	0	0	0	0	0
Current assets	**6 771**	**8 843**	**15 614**	**-484**	**15 130**
Inventory	1 818	914	2 732	0	2 732
Trade receivables	4 090	4 547	8 637	-484	8 153
Current income tax receivables	0	368	368	0	368
Other receivables	113	655	768	0	768
Financial assets available for sale	0	0	0	0	0
Financial assets measured at fair value through profit or loss	0	0	0	0	0
Other financial assets	0	253	253	0	253
Prepayments	89	236	325	0	325
Cash and cash equivalents	661	1 870	2 531	0	2 531
Assets classified as held for sale	0	0	0	0	0
TOTAL ASSETS	**12 374**	**33 241**	**45 615**	**-5 534**	**40 081**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

LIABILITIES	Softech Sp. z o.o 31.12.2017.	LSI Software S.A. 31.12.2017	Companies - jointly	Adjustments resulting from the merger	Comparative data 31.12.2017
Equity	**9 269**	**24 160**	**33 429**	**-5 050**	**28 379**
Share capital	500	3 261	3 761	-500	3 261
Supplementary capital	5 842	16 561	22 403	-4 050	18 353
Own shares	0	-150	-150	0	-150
Other provisions	0	2 060	2 060	0	2 060
Undistributed financial result	0	0	0	0	0
Financial result of the current period	2 927	2 428	5 355	-500	4 855
Long-term liabilities	**278**	**1 638**	**1 916**	**0**	**1 916**
Credits and loans	0	1 079	1 079	0	1 079
Other financial liabilities	156	250	406	0	406
Other long-term liabilities	0	0	0	0	0
Deferred income tax provision	122	308	430	0	430
Accruals	0	0	0	0	0
Provisions for retirement and similar benefits	0	1	1	0	1
Other provisions	0	0	0	0	0
Short-term liabilities	**2 827**	**7 443**	**10 270**	**-484**	**9 786**
Credits and loans	501	675	1 176	0	1 176
Other financial liabilities	182	1 865	2 047	0	2 047
Trade liabilities	1 405	2 391	3 796	-484	3 312
Current income tax liabilities	303	0	303	0	303
Other liabilities	318	1 653	1 971	0	1 971
Accruals	1	796	797	0	797
Provisions for retirement and similar benefits	0	1	1	0	1
Other provisions	117	62	179	0	179
Liabilities directly related to assets classified as held for sale	**0**	**0**	0	0	0
TOTAL LIABILITIES	**12 374**	**33 241**	**45 615**	**-5 534**	**40 081**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Profit and loss account

	Softech Sp. z o.o 31.12.2017.	LSI Software S.A. 31.12.2017	Companies - jointly	Adjustments resulting from the merger	Comparative data 31.12.2017
Sales revenues	**23 910**	**25 232**	**49 142**	**-7 524**	**41 618**
Revenues from sales of products	1 935	3 050	4 985	-303	4 682
Revenues from sales of services	3 025	14 188	17 213	-3 532	13 681
Revenues from sales of goods and materials	18 950	7 994	26 944	-3 689	23 255
Cost of products, goods and materials sold	**17 928**	**19 857**	**37 785**	**-7 280**	**30 505**
Manufacturing costs of products and services sold	5 049	13 911	18 960	-3 591	15 369
Value of goods and materials sold	12 879	5 946	18 825	-3 689	15 136
Gross profit (loss) on sales	***5 982***	***5 375***	***11 357***	***-244***	***11 113***
Other operating income	297	753	1 050	0	1 050
Sales costs	2 115	804	2 919	0	2 919
General and administrative costs	474	3 083	3 557	-244	3 313
Other operating costs	202	246	448	0	448
Profit (loss) on operating activities	***3 488***	***1 995***	***5 483***	***0***	***5 483***
Financial income	70	677	747	-500	247
Financial costs	16	88	104	0	104
Share in net profit (loss) of entities accounted for using the equity method	0	0	0	0	0
Profit (loss) before tax	***3 542***	***2 584***	***6 126***	***-500***	***5 626***
Income tax	615	156	771	0	771
Net profit (loss) from continuing operations	***2 927***	***2 428***	***5 355***	***-500***	***4 855***

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Statement of changes in equity

	Softech Sp. z o.o 01.01-31.12.2017	LSI Software S.A. 01.01-31.12.2017	Companies - jointly	Adjustments resulting from the merger	Comparative data 31.12.2017
Equity 01.01.2017	***6 842***	***21 871***	***28 713***	***-5 050***	***23 663***
Share capital – opening balance	500	3 261	3 761	-500	3 261
Change	0	0	0	0	0
Share capital – closing balance	500	3 261	3 761	-500	3 261
Supplementary capital – opening balance	3 944	16 561	20 505	-4250	16 255
Distribution of profit	1 898	0	1 898	200	2 098
Supplementary capital – closing balance	5 842	16 561	22 403	-4 050	18 353
Own (treasury) shares – opening balance	0	-11	-11	0	-11
Purchase (-) / Disposal (+)	0	-139	-139	0	-139
Own (treasury) shares – closing balance	0	-150	-150	0	-150
Other reserves – opening balance	0	0	0	0	0
Distribution of profit	0	2 060	2 060	0	2 060
Other reserves – closing balance	0	2 060	2 060	0	2 060
Undistributed profit/loss – opening balance	2 398	2060	4 458	-300	4 158
Distribution of profit	-2 398	-2060	-4 458	300	-4 158
Undistributed profit/loss – closing balance	0	0	0	0	0
Financial result of the current period	2 927	2 428	5 355	-500	4 855
Equity 31.12.2017	**9 269**	**24 160**	**33 429**	**-5 050**	**28 379**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Cash flow statement

	Softech Sp. z o.o 01.01-31.12.2017	LSI Software S.A. 01.01-31.12.2017	Companies - jointly	Adjustments resulting from the merger	Comparative data 31.12.2017
OPERATING ACTIVITIES					
Profit (loss) before tax	**3 542**	**2 584**	**6 126**	**-500**	**5 626**
Total adjustments	**-1 239**	**2 854**	**1 615**	**500**	**2 115**
Amortisation and depreciation	1 115	1 992	3 107	0	3 107
Foreign exchange gains/losses	45	30	75	0	75
Interests and share in profits (dividends)	16	-420	-404	500	96
Profit / loss on investing activities	-8	-4	-12	0	-12
Change in reserves	46	34	80	0	80
Change in inventory	-275	-21	-296	0	-296
Change in receivables	-953	-600	-1 553	207	-1 346
Change in liabilities excluding credits and loans	-658	850	192	-207	-15
Change in other assets	-567	993	426	0	426
Other adjustments arising in connection with operating activities	0	0	0	0	0
Cash on operating activities	**2 303**	**5 438**	**7 741**	**0**	**7 741**
Interests paid			0	0	0
Income tax (paid) / reimbursed	-290	-517	-807	0	-807
A. Net cash flow from operating activities	**2 013**	**4 921**	**6 934**	**0**	**6 934**
INVESTING ACTIVITIES					
Inflows	**29**	**522**	**551**	**-500**	**51**
Disposal of intangible assets and fixed tangible assets	29	21	50	0	50
Disposal of investments in immovable property		0	0	0	0
Disposal of financial assets		0	0	0	0
Other investment inflows	0	501	501	-500	1
Outflows	**1 795**	**7 038**	**8 833**	**0**	**8 833**
Acquisition of intangible assets and fixed tangible assets	1 786	3 133	4 919	0	4 919
Acquisition of investments in immovable property	0	0	0	0	0
Acquisition of financial assets	0	3 899	3 899	0	3 899
Other investment outflows	9	6	15	0	15
B. Net cash flow from investing activities	**-1 766**	**-6 516**	**-8 282**	**-500**	**-8 782**
FINANCING ACTIVITIES					
Inflows	**0**	**1 831**	**1 831**	**0**	**1 831**
Net inflows from issues of shares and other equity instruments and from capital contributions	0	11	11	0	11
Credits and loans	0	1 750	1 750	0	1 750
Issue of debt securities	0	0	0	0	0
Other financial inflows	0	70	70	0	70
Outflows	**699**	**2 496**	**3 195**	**-500**	**2 695**
Acquisition of own shares	0	150	150	0	150
Dividends and other payments to owners	500	0	500	-500	0
Profit distributions other than payments to owners	0	0	0	0	0
Repayment of credits and loans	1	1 902	1 903	0	1 903
Redemption of debt securities	0	0	0	0	0
For other financial liabilities	0	0	0	0	0
Financial lease payments	183	363	546	0	546
Interests	15	81	96	0	96
Other financial outflows	0	0	0	0	0
C. Net cash flow from financing activities	**-699**	**-665**	**-1 364**	**500**	**-864**
D. Total net cash flow (A + B + C)	**-452**	**-2 260**	**-2 712**	**0**	**-2 712**
E. Balance sheet change in cash, including:	**-497**	**-2 290**	**-2 787**	**0**	**-2 787**
– Change in cash due to foreign exchange differences	-45	-30	-75	0	-75
F. Cash at the beginning of the period	**1 127**	**4 160**	**5 287**	**0**	**5 287**
G. Cash at the end of period (F + D)	**675**	**1 900**	**2 575**	**0**	**2 575**

Łódź, 22 May 2020

Signatures of Members of the Management Board

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

Signature of a person preparing the financial statement:

Bartłomiej Grduszak	*Dariusz Górski*
President of the Management Board	*Chief Accountant*

F. Report of the Management Board on business activities of the Company and the Group in 2019

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 2019 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 2019 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 2019 – 31 December 2019. The comparable period: 1 January 2018 – 31 December 2018.

II. Description of the Group' business activities

LSI Software Group is a leading Polish producer of software for the retail and hospitality sectors and for cinema chains. 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 centers.
- **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® Beauty** – system for comprehensive management of beauty salons, hairdressing salons or spa facilities
- **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

- **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
- **Bixolon** - 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)
- **Cleanline24** – line of professional, contactless hand disinfection machines, designed for all areas with heavy traffic, including restaurants, hotels, cinemas, large-format shops, gas stations, hospitals

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
- **Posline24** – line of professional equipment for business, including self-service kiosks, touch screens, PDAs, paging systems, printers and terminals, proprietary hardware solutions and distribution of global brands

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 2019.

2. Information on markets and supply sources

In 2019 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 2019 amounted to nearly 21%. 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 2019, 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).

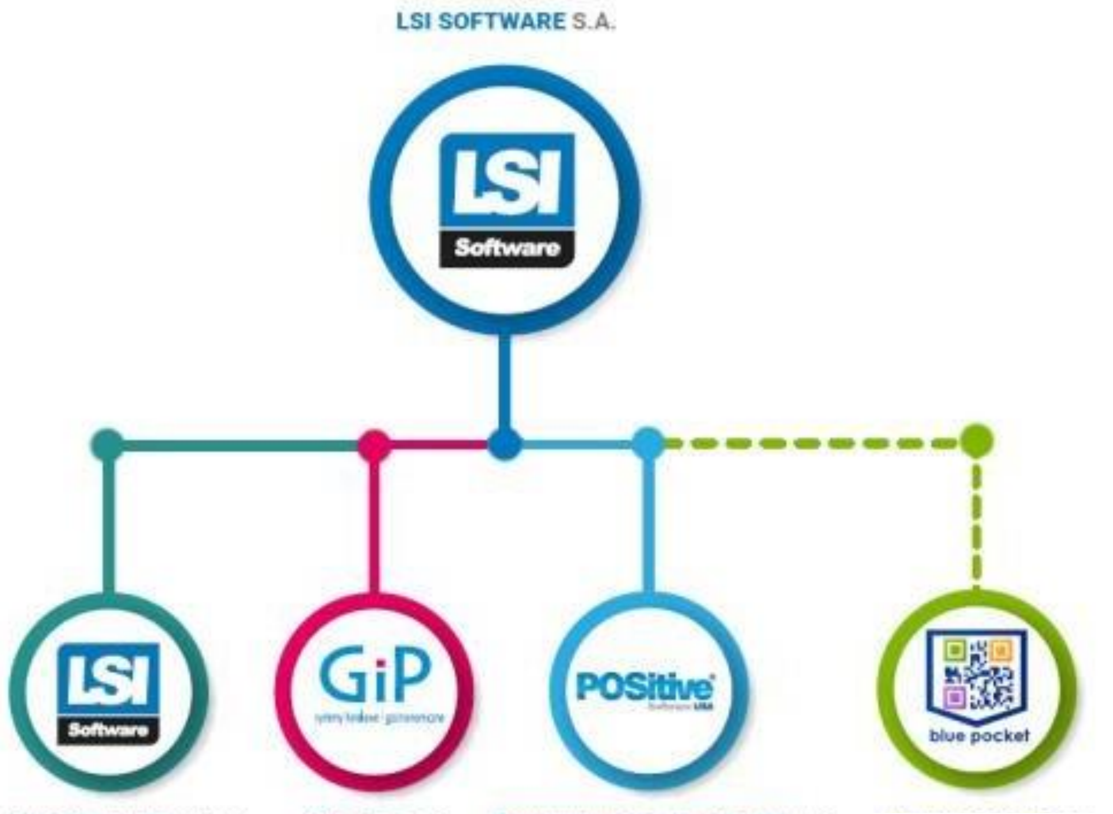
Due to resignation on 10 March 2015 of former president of the Management Board of BluePocket S.A. and failure to appoint a new Management Board of this company, by the day of preparation of the report hereof, the Issuer did not receive financial statements of BluePocket S.A. for the years 2014-2019. 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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

In 2019 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.



LSI SOFTWARE S.R.O Subsidiary **100%** of share in capital and votes Entity incorporated on 13 September 2016	**PPW "GiP" Sp. z o.o.** Subsidiary **100%** of share in capital and votes Entity acquired on 1 February 2017	**POSITIVE SOFTWARE USA LLC** Subsidiary **100%** of share in capital and votes Entity incorporated on 28 June 2017	**BLUE POCKET S.A.** Jointly Controlled Subsidiary **50%** of share in capital and votes Entity was not consolidated due to loss of control

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

In 2019, 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 2019 there were no changes in the basic principles of management of the Company and its subsidiaries.
In 2018, 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 2019

On 11 April 2019, LSI Software SA concluded a working capital loan agreement of PLN 400 thousand with mBank SA to finance up to 85% of net expenditures for the purchase of means of transport.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 falls on on 31 March 2022. 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 description of borrowings is presented in Note 32 to the Annual Separate Financial Statement and Note 34 to the Annual Consolidated Financial Statement. In 2019 no loan agreements were terminated within the Group.

7. Information on sureties and guarantees granted and received in 2019

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 2020
2. AmRest Sp. z o.o. - in the amount of PLN 120 thousand due to liabilities resulting from the concluded lease agreement with the expiration date until 18 February 2022
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 2019 amounts to PLN 2,572 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 2019, with particular consideration of loans granted to associated undertakings of the Company

In 2019, 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

On 19 February 2020 an agreement was concluded between the Issuer and Next Generation LLC with its registered office in Riyadh. The agreement provides for the supply, implementation, maintenance and development of POSitive® Cinema in 19 more facilities of the cinema chain - © muvi Cinemas in 2020. The agreement was concluded for an indefinite period of time whereby the last of implementation under this agreement is scheduled for 28 October 2020.

The estimated value of the contract related to the execution of this year's openings of new © muvi Cinemas network's facilities (excluding potential equipment deliveries) is USD 937 thousand, i.e. PLN 3,706 thousand translated at the average exchange rate of the National Bank of Poland as at 19 February 2020. The estimated total value of services related to the first stage of the project partially executed in 2019 and the second stage covered by the agreement currently concluded is USD 1,577 thousand or PLN 5,430 thousand.

The agreement does not provide for any contractual penalties or other conditions deviating from those commonly used for this type of agreements.

In the opinion of the Management Board, there are currently no other significant agreements for the Group's operations, including agreements concluded between the shareholders that are known to the Group.

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.

- **Risks associated with sars-cov-2 virus (covid-19)**

The effects of the spread of coronavirus and actions taken by the Polish authorities in order to prevent the epidemic will have a negative impact on the operating activity of the Issuer and the financial results of the Company for the first and subsequent quarters of 2020. The measures taken by the individual countries in which the Company conducts its operations will also significantly affect the level of revenue from foreign sales.

Recommendations and prohibitions issued by the state authorities concerning restrictions on movement and business activities may cause a temporary decrease in revenue from the sale of services and products offered, but the value of such a decrease cannot be estimated at the time of publication of this report. The financial results achieved in the coming periods will also be affected by:

- duration of the epidemic,
- further administrative restrictions on the functioning of individual countries,
- restrictions imposed on entrepreneurs,
- the possibility of using aid packages launched by individual countries.

The Company's Management Board has not yet identified any significant disruptions in the execution of the concluded contracts, however, the situation related to the coronavirus may cause some delay in the performance of those parts of the projects the initiation phases of which were to start in the first and second quarter of 2020. Temporary disruptions in the supply chains of goods necessary for the Issuer's activity, which occurred in March and April 2020, have been eliminated. At the moment of publication of this report, all departments of the Company operate on an ongoing basis and perform their contractual obligations within the deadlines specified in the agreements.

It is important to bear in mind the risk of unavailability of members of production teams due to coronavirus infection, which has been reduced due to the prompt switching to Home Office mode. The dispersed work does not rule out the possibility of individual infections, but significantly reduces them while eliminating the risk of mutual infections of team members.

The Company's Management Board also sees potential risks associated with global reduction or postponement of investment plans in most of the serviced industries and maintaining financial liquidity by some contractors particularly affected by the pandemic, such as HoReCa. The coronavirus pandemic may therefore have an impact on payment congestion and debt collection problems. The Company has taken actions to strengthen its credit policy and to shorten the receivables rotation cycle.

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

External Factors

Economic situation:
So far, Poland's economic situation has been recognized as one of the most interesting in the region and promising in terms of positive GDP growth and continued favorable growth prospects. The current forecasts concerning the economic slowdown may also have a negative impact on further development of the Issuer's business.

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.

Technological development
The growing importance of mobile technologies and the change of business models in many industries generate strong incentives for the development of the Issuer and its resources.

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 Company.

Labour market
Growing pressure to increase wages in the IT industry and growing competition in the local labor market may also affect the Group' s further development.

Epidemic situation
The spread of SARS-CoV2 coronavirus has an impact on the business activity of the Capital Group and on the financial condition of its clients, including on the demand for IT products and services generated by them.

Internal factors

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

Sales growth
The ongoing growth of sales, including foreign sales, which has been sustained for several years, proves 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,
- further development of IT products and services for the cinema sector and self-service systems,
- extending the offer by solutions for which increased demand has emerged in connection with the coronavirus pandemic, including in particular non-contact hand disinfection machines,
- reorganisation of the business model and flexible adaptation of resources to changing conditions caused by outbreak of global pandemic,
- further diversification of 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 and development of own production base in Poland.

13. Efforts undertaken in the course of implementation of the Company's and the Group's development strategy in 2019

Strengthening the Group's business value 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 2019, 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 networks operating in the United States of America, Malaysia and Saudi Arabia.

The cooperation with the cinema chain © muvi Cinemas, commenced in 2019, resulted in the conclusion of a contract in 2020 for the supply, implementation, maintenance and development of POSitive® Cinema in 19 more cinemas. The agreement was concluded for an indefinite period of time, whereas the last implementation covered by this agreement was scheduled for 28 October 2020. Another step in the implementation of the Group's development strategy was the launch by GiP Sp. z o.o. of a line of professional equipment for Posline24 business. The new distribution channel includes self-service kiosks, touch screens, PDAs, paging systems, printers and terminals. As part of this project, the subsidiary also offers proprietary hardware solutions and the distribution of global brand technologies.

In terms of products, the Group's operations were mainly focused on further development of POSitive® Cinema system through extending it with an additional SMART CINEMA solution, which allows for comprehensive management of a cinema facility with the use of decision-making machines. Another development project carried out in 2019 was the development of a new Gastro - Online system, which is planned for market launch in 2020. The offer has also been extended by an integrated POSitive® Beauty system providing comprehensive management of beauty salons, hairdressing salons or SPAs. Moreover, works have begun on developing a line of professional touchless hand disinfection machines intended for all places with heavy traffic, including restaurants, hotels, cinemas, large-format shops, gas stations, hospitals (Cleanline24).

The Issuer's development directions will also be connected with obtaining funds from the European Union Funds for the years 2014-2020. In 2019, Group's companies implemented EU projects with a total value of co-financing exceeding PLN 1,750 thousand and effectively filed applications for the implementation of subsequent projects with a co-financing value of approximately PLN 1,000 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

The cooperation with the cinema chain © muvi Cinemas, commenced in 2019, resulted in the conclusion of a contract in 2020 for the supply, implementation, maintenance and development of POSitive® Cinema in 19 more cinemas. The agreement was concluded for an indefinite period of time, whereas the last implementation covered by this agreement was scheduled for 28 October 2020. The estimated value of the contract related to the execution of this year's openings of new © muvi Cinemas network's facilities (excluding potential equipment deliveries) is USD 937 thousand, i.e. PLN 3,706 thousand translated at the average exchange rate of the National Bank of Poland as at 19 February 2020. The estimated total value of services related to the first stage of the project partially executed in 2019 and the second stage covered by the agreement currently concluded is USD 1,577 thousand or PLN 5,430 thousand.

Another situation the effects of which will have a significant impact on the Group's operations is the coronavirus epidemic and actions taken by the Polish authorities with the aim of reducing it. These actions will have a negative impact on both the Issuer's and its business partners' operations. The above conditions may also affect the Company's financial results in the first and subsequent quarters of 2020. The measures taken by individual countries, in which the Capital Group's entities conduct their operations, will also have a significant impact on the level of revenue from foreign sales.

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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

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”).

On 27 June 2019 the Annual General Meeting of LSI Software S.A. adopted Resolution No. 25/2019 on extending the buyback of the Company's own shares as determined under Resolution No. 7/2017 of the Annual General Meeting of 30 June 2017. The Management Board's authorisation to acquire the Company's own shares under Art. 362.1.8 of the Commercial Companies Code currently covers the period from 30 June 2017 to 31 December 2021, but not longer than until the funds allocated for their acquisition are exhausted.

4. Information concerning the issue of securities

In 2019, 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 2019, the composition of LSI Software S.A. Management Board was as follows:

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

In 2019 there were no changes in the composition of the Company's Management Board.

Supervisory Board

As at 31 December 2019, the composition of LSI Software S.A. Supervisory Board was as follows:

(All amounts are expressed in PLN thousand, unless otherwise indicated)

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
Maciej Węgierski - Member of the Supervisory Board

In 2019 there were no changes in the composition of the Company's Supervisory Board.

Audit Committee
As at 31 December 2019, the composition of the Audit Committee was as follows:
Piotr Kraska - Chairman of the Audit Committee
Krzysztof Wolski - Member of the Audit Committee
Andrzej Kurkowski - Member of the Audit Committee
Grzegorz Siewiera - Member of the Audit Committee
Maciej Węgierski - Member of the Audit Committee

In 2019 there were no changes in the composition of the Company's Audit Committee.

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 undertakings for the years 2018 - 2019 under the concluded employment contracts as well as for the functions performed is presented in the table below.

	Position	01.01 - 31.12.2019	01.01 - 31.12.2018
Remuneration of Members of the Management Board			
LSI Software S.A.			
Bartłomiej Grduszak	President of the Management Board	111	75
Michał Czwojdziński	Member of the Management Board	111	82
Henryk Nester	Member of the Management Board	0	10
Grzegorz Strąk	Member of the Management Board	245	244
GiP Sp. z o.o.			
Michał Czwojdziński	President of the Management Board	0	0
Bartłomiej Grduszak	Vice-President of the Management Board	0	0
Leszek Guzowski	Member of the Management Board	0	110
LSI Software s.r.o.			
Bartłomiej Grduszak	Member of the Management Board	0	0
Michał Czwojdziński	Member of the Management Board	0	0
Grzegorz Siewiera	Member of the Management Board	0	0
Positive Software USA LLC			
Grzegorz Siewiera	President of the Management Board	0	0
TOTAL		**467**	**521**
Remuneration of Members of the Supervisory Board			
Maciej Węgierski	Member	6	3
Piotr Kraska	Member	6	6
Andrzej Kurkowski	Member	6	6
Grzegorz Kwiatkowski	Member	0	2
Krzysztof Wolski	Vice-Chairman	10	9
Grzegorz Siewiera	Chairman	16	16
TOTAL		**44**	**42**

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 Notes 47 and 48 to the Annual Separate Financial Statement and Notes 49 and 50 to 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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

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 2019.

	Number of shares	Number of votes	% of votes at GM
Michał Czwojdziński (Vice-President of the Management Board)	24 991	24 991	0,51
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)	472 556	472 556	9,72

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

	Number of shares	Number of votes	% of votes at GM
Michał Czwojdziński (Vice-President of the Management Board)	28 000	28 000	0,58
Piotr Kraska (Member of the Supervisory Board)	478 306	478 306	9,84

As at 31 December 2019 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 2019, thanks to continued development of its business, LSI Software SA achieved a nearly 11% increase in sales revenues, which amounted to PLN 46,791 thousand as compared with PLN 42,229 thousand for 2018.

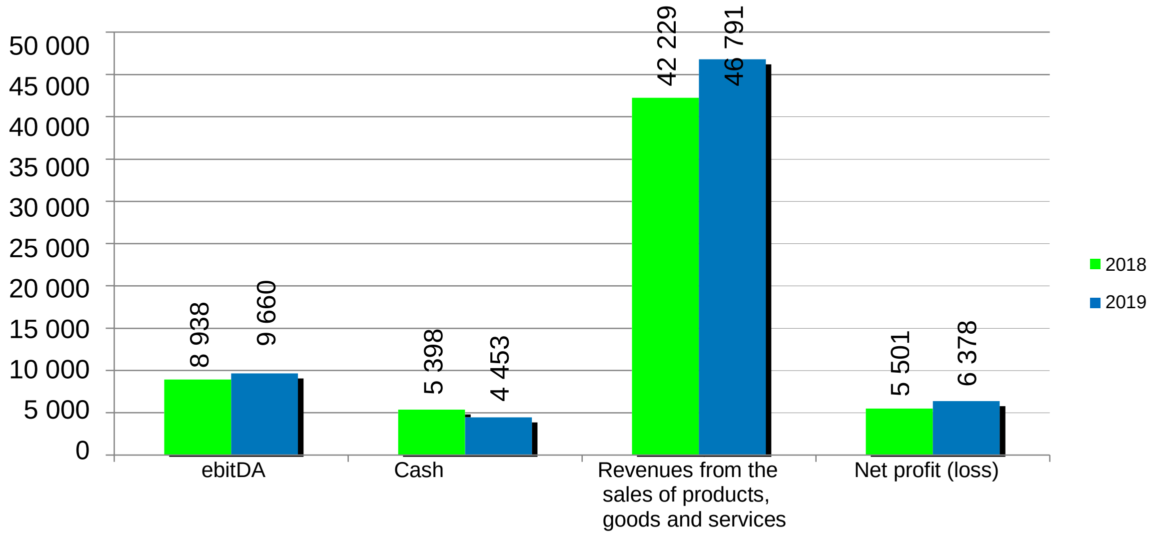
(All amounts are expressed in PLN thousand, unless otherwise indicated)

Implementation of the adopted strategy also resulted in a net profit of over PLN 6,378 thousand, which is nearly 16% higher than in 2018.

The profitability of the operations at the EBIT and gross profit on sales levels has slightly deteriorated due to international implementations in the Cinema segment. These activities required the Company to involve additional resources at the beginning of 2019, which generated higher costs compared to the previous year. The need to handle a growing number of inquiries and to extend the system by adding functionalities specific to the Customer's geographic market also contributed to the decrease of the indicated profitability levels. Another factor reducing the value of return on sales was a decrease in the margin on sales of goods, which stemmed from the commencement of large rollout projects carried out since the fourth quarter of 2019 for the Company's main network customers.

Due to a 29% increase in depreciation compared to 2018, connected with the completion of development projects of significant value last year, the amount of profit at the EBITDA level increased by over 8%.

Selected data	12 months until 31.12.2019	12 months until 31.12.2018	Change
Revenues	46 791	42 229	111%
Gross profit/loss on sales	8 870	9 560	93%
EBIT	5 298	5 566	95%
EBITDA (EBIT+Depreciation)	9 660	8 938	108%
Net profit/loss	6 378	5 501	116%
Cash	4 453	5 398	82%



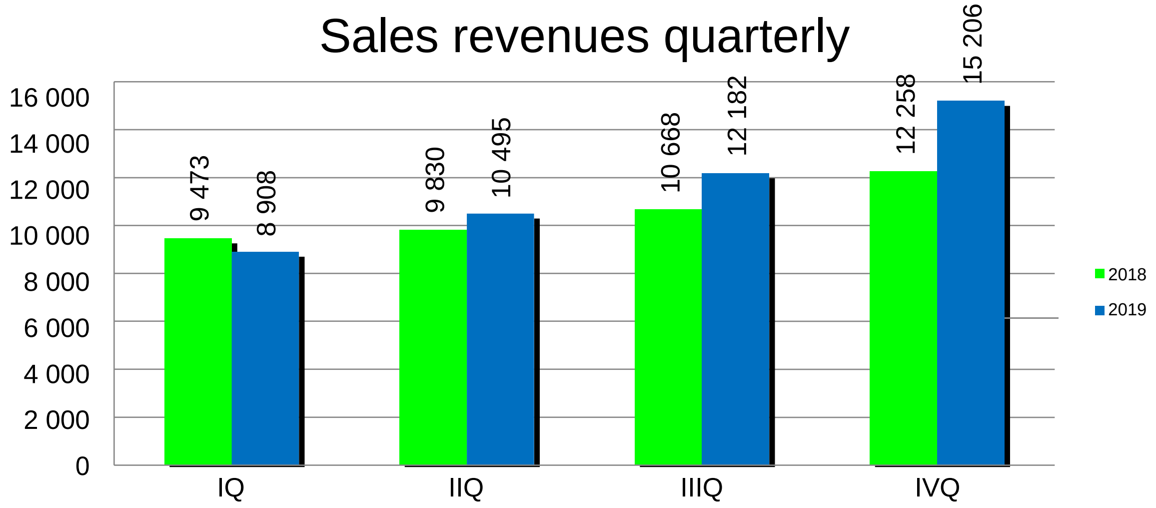
At the same time, it should be noted that the above changes brought about an increase in the net profit margin by 0.6 p.p. from 13.0% to 13.6% at the end of 2019.

Profitability ratios	12 months until 31.12.2019	12 months until 31.12.2018	Change
Gross profit margin on sales	19,0%	22,6%	-3,6 p.p
EBITDA margin	20,6%	21,2%	-0,6 p.p
Operating profit margin	11,3%	13,2%	-1,9 p.p
Net profit margin	13,6%	13%	0,6 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

(All amounts are expressed in PLN thousand, unless otherwise indicated)

In the period covered by the financial statement hereof, the value of the Company's total assets increased by nearly 23% from PLN 44,402 thousand to PLN 54,612 thousand. The change in the balance sheet total is mainly associated with an increase in:
- right-of-use assets, which in 2019 were disclosed in accordance with IFRS 16,
- intangible assets,
- trade receivables and other receivables,
- inventory.



As at the end of 2019, the share of intangible assets in the Company's balance sheet total was nearly 22%, i.e. by 4 pp lower than as at the end of 2018. The dominant item of current assets are trade receivables (nearly 61% of current assets) and inventory (19% of current assets). The value of equity as at the end of 2019 increased by 14% as compared to the end of 2018 and amounted to PLN 38,115 thousand. In 2019, the Company's share capital did not change comparing to 2017 and amounted to PLN 3,261 thousand. As at 31 December 2019, the total liabilities of LSI Software S.A. increased by more than 49% as compared to the end of 2018 and amounted to PLN 16,497 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. (70% of the balance sheet total). The Company's general debt ratio is higher than a year ago and stands at 30.2% which is the result of implementing the changes associated with IFRS 16. The above structure of funding sources 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 projected financial situation of the Company in subsequent periods may deteriorate due to the negative effects of the coronavirus pandemic. No other extraordinary factors are expected to affect the financial situation of the Issuer in the next financial year.

Additional information essential for the assessment of the financial position:
- in connection with the court proceedings concluded in the first quarter of 2019 and the payment received, the Company recognized revenues from interest in the amount of PLN 379 thousand and released write-downs on receivables in the amount of PLN 286 thousand,
- the amount of working capital increased significantly from PLN 9,196 thousand to PLN 11,677 thousand, which represents a 27% increase as compared to 2018.

Liquidity ratios	**31.12.2019**	**31.12.2018**	**Change**
Working capital	11 677	9 169	127%
Current ratio	2,0	2,0	0,0 p.
Quick ratio	1,6	1,7	-0,1 p.
Cash ratio	0,4	0,6	-0,2 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

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Debt ratio	31.12.2019	31.12.2018	Change
Debt ratio	30,2%	24,9%	5,3 p.p
Debt / Equity	12,4%	7,5%	4,9 p.p
Debt / (Debt + Equity)	11,0%	7,0%	4,0 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)

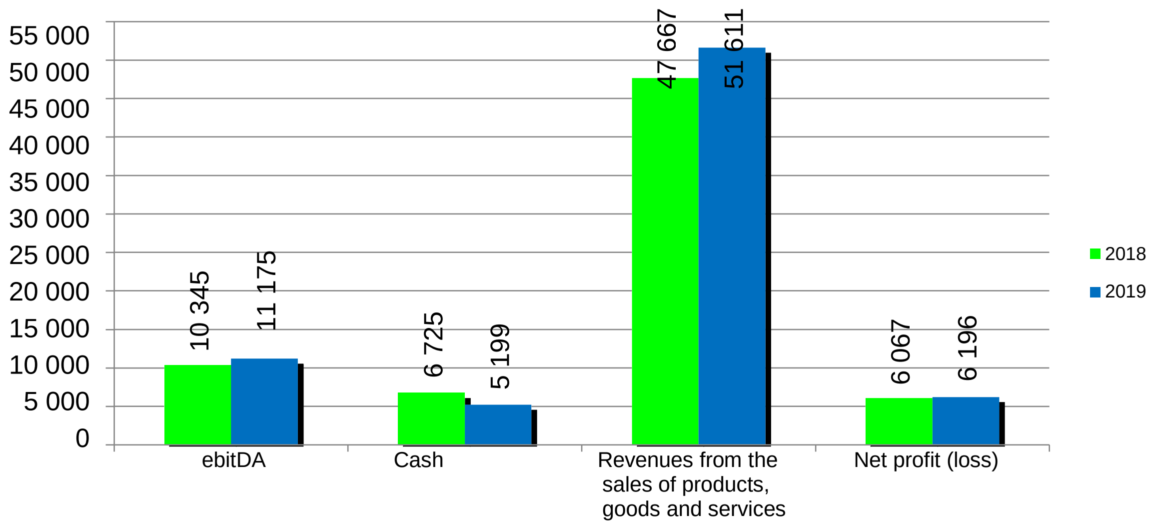
2. Discussion of basic economic and financial figures disclosed in the Annual Consolidated Financial Statement of the Group

The year 2019 was a successful one in terms of the Group's financial results. The Issuer has generated sales revenue of 51 611 000 PLN, which is 8% higher than in 2018.

In turn, the net profit achieved by the Group amounted to PLN 6,196 thousand, i.e. 2% more than in 2018. The profitability of the business activity deteriorated at the level of EBIT, where a decrease of over 3% is observed in relation to 2018, and gross profit on sales, which is lower by 12%. These drops can be attributed to international projects in the Cinema segment, which required the Group to engage additional resources at the beginning of 2019, generating higher costs compared to the previous year. The need to handle a growing number of inquiries and to extend the system by adding functionalities specific to the Customer's geographic market also contributed to the decrease of the indicated profitability levels. Another factor reducing the value of return on sales was a decrease in the margin on sales of goods, which stemmed from the commencement of large rollout projects carried out since the fourth quarter of 2019 for the Group's main network customers.

Selected data	12 months until 31.12.2019	12 months until 31.12.2018	Change
Revenues	51 611	47 667	108%
Gross profit/loss on sales	10 013	11 335	88%
EBIT	6 413	6 642	97%
EBITDA (EBIT+Depreciation)	11 175	10 345	108%
Net profit/loss	6 196	6 067	102%
Cash	5 199	6 725	77%

Due to a 29% increase in depreciation compared to 2018, connected with the completion of development projects of significant value last year, the amount of profit at the EBITDA level increased by over 8%.

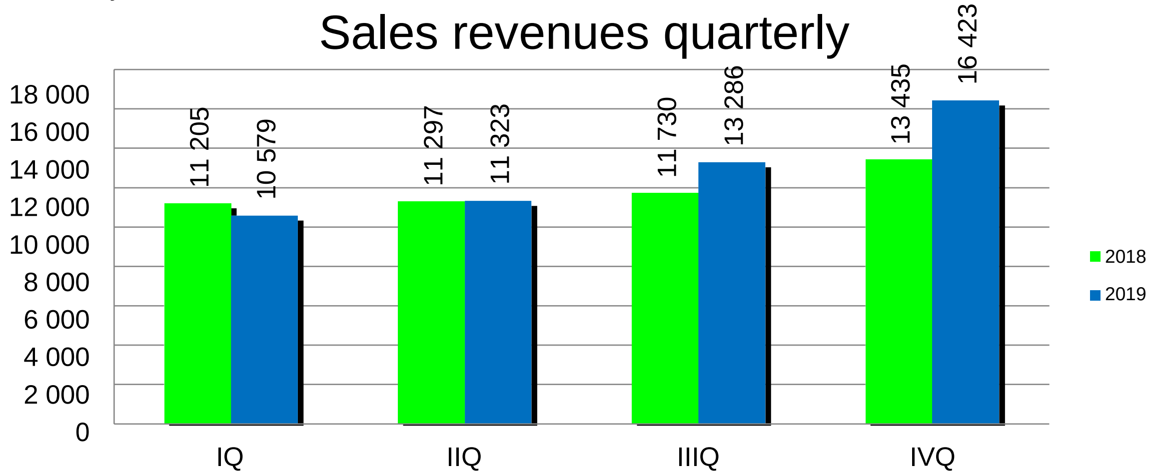


(All amounts are expressed in PLN thousand, unless otherwise indicated)

Profitability ratios	12 months until 31.12.2019	12 months until 31.12.2018	Change
Gross profit margin on sales	19,4%	23,8%	-4,4 p.p
EBITDA margin	21,7%	21,7%	0,0 p.p
Operating profit margin	12,4%	13,9%	-1,5 p.p
Net profit margin	12,0%	12,7	-0,7 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 the Group's total assets increased by nearly 23% from PLN 44,442 thousand to PLN 54,464 thousand. The change in the balance sheet total is mainly associated with an increase in:
- trade receivables,
- right-of-use assets, which in 2019 were disclosed in accordance with IFRS 16,
- fixed tangible assets,
- inventory.



As at the end of 2019, the share of intangible assets in the Group's balance sheet total stood at over 23%, i.e. 4 p.p. lower than as at the end of 2018. In turn, trade receivables (nearly 56% of current assets) and cash (20% of current assets) are the dominant position of current assets. A significant increase in the balance of trade receivables at the end of 2019 is associated with the implementation of large rollout projects for key network customers of the Capital Group, which were paid for in Q1 2020.

Liquidity ratios	31.12.2019	31.12.2018	Change
Working capital	13 491	10 992	123%
Current ratio	2,1	2,2	-0,1 p.
Quick ratio	1,7	1,8	-0,1 p.
Cash ratio	0,4	0,7	-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

The value of equity as at the end of 2019 increased by 14% as compared to the end of 2018 and amounted to PLN 37,446 thousand. In 2019, the Company's share capital did not change comparing to 2017 and amounted to PLN 3,261 thousand. As at 31 December 2019, the total liabilities of the Group increased by more than 47% as compared to the end of 2018 and amounted to PLN 17,018 thousand, which is a result of introducing changes related to IFRS 16.
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 the Group (69% of the balance sheet total). The Company's general debt ratio is higher than a year ago and stands at 31.2%.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

The indicated level guarantees the current solvency of the Group's companies and compliance with the conditions for maintaining safe levels of indebtedness under the concluded agreements with financial institutions.

Debt ratio	31.12.2019	31.12.2018	Change
Debt ratio	31,2%	26,1%	5,2 p.p
Debt / Equity	12,9%	7,9%	5,0 p.p
Debt / (Debt + Equity)	11,4%	7,3%	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)

The projected financial situation of the Group in subsequent periods may change due to the negative effects of the coronavirus pandemic. No other extraordinary factors are expected to affect the financial situation of the Issuer in the next financial year.

Additional information essential for the assessment of the financial position:
• in connection with the court proceedings concluded in the first quarter of 2019 and the payment received, the Company recognized revenues from interest in the amount of PLN 379 thousand and released write-downs on receivables in the amount of PLN 286 thousand,
• the amount of working capital increased significantly from PLN 10,992 thousand to PLN 13,491 thousand, which represents a 23% increase as compared to 2018.

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.

Strengthening the Group's business value 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 2019, demand for the Group's IT services and products remained stable while its structure has changed. An increase in the share of revenue from the sale of products was observed with a simultaneous decrease in demand for services offered by the Group's companies.

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 sector both on the domestic and foreign markets,

• further diversification of the offer by selling products and services to clients from different sectors and industries,
• constant development of own, technologically advanced IT solutions with particular consideration given to self-service 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 and development of own production base in Poland.

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. Following its expansion into foreign markets, in 2019 the Group launched further large implementation projects in cinema networks operating in Saudi Arabia, Malaysia and the United States of America. Pre-implementation analyses are also currently being carried out for the cinema network operating in Switzerland. 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 2020 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. These actions resulted in the introduction to the Group' s offer of a line of professional touchless hand disinfection machines, intended for all places with heavy traffic, including restaurants, hotels, cinemas, large-format shops, gas stations, hospitals (Cleanline24). In the opinion of the Management Board, the Group will record significant sales growth in this area in subsequent periods due to strong demand for this type of solutions during a pandemic. 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 1 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.

At this point, attention should be drawn to the effects of the spread of Covid-19 coronavirus and the actions taken by the Polish authorities in order to prevent the epidemic. In the opinion of the Management Board mentioned actions will have a negative impact on the operating activity of the Issuer and the financial results of the Company for the first and subsequent quarters of 2020. The measures taken by the individual countries in which the Company conducts its operations will also significantly affect the level of revenue from foreign sales.

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 incurred in 2019.

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 01.01.2019 to 31.12.2019.

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

On 20 February 2019, the Municipal Court in Prague registered the share capital increase of the subsidiary LSI Software s.r.o. from CZK 200 thousand to CZK 3,200 thousand, i.e. to over PLN 540 thousand. Consequently, LSI Software SA made a payment of PLN 501 thousand in order to acquire new shares in the subsidiary.
Apart from the above payment, in 2019 the Group did not make any other capital investments.

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 2019.

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

In 2019 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

As at 31 December 2019, the Company does not apply 4 recommendations: III.R.1., IV.R.2., IV.R.3., VI.R.3.
As at 31 December 2019, 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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

Assets being recorded 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 2019, 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	472 556	14,49%	472 556	9,72%
Rockbridge Towarzystwo Funduszy Inwestycyjnych S.A.	286 395	8,78%	286 395	5,89%
Inmuebles Polo SL	250 000	7,67%	250 000	5,14%
Other shareholders	1 201 326	36,84%	1 201 326	24,71%
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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

10. Composition, changes thereto and description of the functioning of the management and supervisory boards of LSI Software S.A. in 2019

Management Board

As at 31 December 2019, the composition of LSI Software S.A. Management Board was as follows:

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

In 2019 there were no changes in the composition of the Management Board of LSI Software S.A. On 6 February 2019, Mr. Grzegorz Siewiera was appointed Member of the Management Board of LSI Software s.r.o.

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 2019 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 2019, 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
Maciej Węgierski	-	Member of the Supervisory Board

In 2019 there were no changes in the composition of the Supervisory Board of LSI Software S.A. In the period from 31.12.2019 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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

The Audit Committee held four meetings in 2019 on the dates of the Supervisory Board meetings.

As at 31 December 2019 the composition of the Supervisory Board's Audit Commitee was as follows:

Piotr Kraska	-	Chairman of the Audit Commitee
Krzysztof Wolski	-	Member of the Audit Commitee
Andrzej Kurkowski	-	Member of the Audit Commitee
Grzegorz Siewiera	-	Member of the Audit Commitee
Maciej Węgierski	-	Member of the Audit Commitee

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 Włodkowic University. He also completed Postgraduate Studies at the University of Łódź - University of Maryland - Executive Master of Business Administration (Executive MBA).

In 2019, 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 2019

There were no changes in the composition of management and supervisory bodies of LSI Software S.A. after 31 December 2019.

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.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

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 2019

The structure of the Group remained unchanged after 31 December 2019.

2. Changes in the composition of management and supervisory boards after 31 December 2019

There were no changes in the composition of the Management and Supervisory Boards after 31 December 2019.

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

As at 31 December 2019 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 first instance judgment adjudicating the amount of PLN 471 thousand. An appeal filed by the plaintiffs is pending.

4. Information on major developments in research and development

In 2019, the total expenditures of LSI Software S.A. on research and development operations amounted to PLN 7,285 thousand. In that period, the Company conducted 14 projects, including 1 implemented under EU programmes. During the reporting period, 3 projects were completed and put into operation or sold. One of the completed projects is a solution of a new generation IT system for the management of a cinema facility - SMART CINEMA, being the result of research and development work of LSI Software S.A. This project is co-financed by the European Union under the Regional Operational Programme for Łódzkie Voivodeship 2014-2020. In turn, in the same period GIP Sp. z o.o. implemented 1 project in the field of research and development fully financed with own funds for a total amount of PLN 1 236 thousand.

(All amounts are expressed in PLN thousand, unless otherwise indicated)

In 2020 LSI Software S.A. will commence the development of POSitive® MARKETING - an innovative product in the area of Marketing Automation, which will broaden the existing range of solutions offered by the Company and increase its competitiveness on the market. This project will be co-financed by the European Union as part of the Regional Operational Programme for Łódzkie Voivodship 2014-2020.

5. Information on environmental issues

Due to 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 Entity. 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. Information regarding the employment

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 -31.12.2019	01.01 -31.12.2018
Management Board	1	1
Administration	11	8
Sales Department	37	36
Production Division	51	41
Other	49	50
Total	**149**	**136**

Employment turnover in LSI Software S.A.

	01.01 -31.12.2019	01.01 -31.12.2018
Number of employees recruited	72	30
Number of workers made redundant	46	48
TOTAL	**26**	**-18**

Average employment in LSI Software Group

	01.01 -31.12.2019	01.01 -31.12.2018
Management Board	1	1
Administration	12	9
Sales Department	39	37
Production Division	54	43
Other	56	57
Total	**162**	**147**

Employment turnover in LSI Software Group

	01.01 -31.12.2019	01.01 -31.12.2018
Number of employees recruited	78	30
Number of workers made redundant	48	61
TOTAL	**30**	**-31**

(All amounts are expressed in PLN thousand, unless otherwise indicated)

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 -31.12.2019	01.01 -31.12.2018
for the audit of the annual financial statement and consolidated financial statement	48	48
for other assurance services, including review of the financial statement and consolidated financial statement	34	34
for tax advisory services	0	0
for other services	0	0
TOTAL	**82**	**82**

Prepared by:

Signatures of Members of the Management Board:

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

Signature of the person drawing up the financial statement:

Bartłomiej Grduszak	Dariusz Górski
President of the Management Board	*Chief Accountant*

Łódź, dnia 22 maja 2020 roku

Signed by / Podpisano przez:
Bartłomiej Paweł Grduszak
Date / Data: 2020-05-22 10:42

Signed by / Podpisano przez:
Dariusz Górski
Date / Data: 2020-05-22 10:34

Signed by / Podpisano przez:
Michał Józef Czwojdziński
Date / Data: 2020-05-22 11:01

Signed by / Podpisano przez:
Grzegorz Strąk
Date / Data: 2020-05-22 11:09