# LSI Software Group

Consolidated annual report

for the year 2020

# 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 Group focused its activities on preserving its existing scale of operations despite the exceptionally adverse conditions associated with the coronavirus pandemic. LSI Software Group continued its growth strategy based on development of own products as well as on domestic and foreign sales of these products. It was not a successful year in terms of the generated financial results. Due to further restrictions imposed on business operations in the supported industries, the Group reported revenues 17% lower than in 2019 and a net profit lower by 61% as compared to the corresponding period last year.

Following a significant reduction in activity in a number of economic sectors in Poland in 2020, the Group has focused even more strongly on foreign sales. This resulted in signing an agreement to implement software in the Blue Cinema chain in Switzerland, where POSitive® Cinema system will support the operation of 14 cinemas. The software was also successfully implemented in ten mmCineplexes in Malaysia, which is the third largest cinema chain in this country. Apart from implementation successes, the POSitive® Cinema system is also constantly developed with new modules and functionalities, which is why LSI Software was nominated for the Polish Intelligent Development Award in the category “Innovative technologies of the future”. The nomination was awarded under the project “New generation IT system for Smart Cinema facility management as a result of R&D work conducted by LSI SOFTWARE S.A.”.

The Group continues to develop all its products from the operated markets. Almost in every product group, new solutions have been introduced, responding to the new needs of customers. Examples include the new Marketing Automation class system or self-service mobile applications for the catering industry. These are among the new products offered exclusively in the SaaS (Software as a Service) model, which will result in a steady and stable source of income in the future. Greater emphasis is placed on widely understood e-commerce solutions in each of the supported industries.

Not only software development was awarded last year. LSI Software was among the laureates of Forbes Diamonds. This ranking places companies that have most successfully increased their value in the last three years, and is compiled on the basis of, among other factors, financial results, payment history and reliability, as well as the absence of unfavourable legal incidents.
The fact is that last year was a huge challenge for everyone, but quick response to market requirements made it possible for us to establish cooperation with companies such as IKEA or OTCF even during the closure of the HoReCa industry. As a leader in system solutions for the catering industry, we strongly supported our customers during this difficult time, by offering various types of discounts, special support conditions or even by making takeaway solutions temporarily available free of charge. The introduction of the Cleanline24 product line was another dynamic response to legal requirements and market demand. Our disinfection kiosks were used not only by the catering industry, but also by other sectors of the economy.

Last but not least, 2020 also brought changes to the structure of the Company. On 7 July, I was appointed by the Annual General Meeting to the Management Board as President, a position I had already held in the years 1998-2014. Thus, Bartłomiej Grduszak became Vice-President of the Management Board, at the same time remaining Finance Director, and Michał Czwojdziński became Member of the Company's Management Board and Hardware Division Director.
Considering the difficult situation in Poland and worldwide, the past year has shown that as a company we are prepared to respond quickly to the changing economic situation, and the commitment of LSI Software employees is a strong asset which enables further development of the company and strengthening of its market position.

Grzegorz Siewiera

President of the Management Board of LSI Software S.A.          Łódź, 30 April 2021

(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 consolidated financial statement and comparative data have been prepared in accordance with applicable accounting principles and that they accurately, fairly and transparently present the financial position and performance of LSI Software Group. The Management Board of the Company, also declares that the report on the Group's business activities gives a reliable view of the issuer's development and achievements, including the description of key risks and threats. The annual consolidated financial statement hereof has been prepared on the basis of accounting principles in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS"). As at the date of approving the financial statement hereof for publication, taking into account the ongoing process of introducing IFRS in the EU, IFRS applicable to this financial statement do not differ from the EU IFRS. This financial statement covers the period from 1 January to 31 December 2020 and the comparable period from 1 January to 31 December 2019.

The Management Board of the Company declares that the Audit Firm which performed the audit of the annual consolidated financial statement was selected in accordance with the law and that this audit firm and the statutory auditors who conducted the audit fulfilled the conditions to express an impartial and independent opinion on the audited annual consolidated financial statement in accordance with the applicable regulations and professional standards, as well as that the applicable regulations related to the rotation of the audit firm and the key statutory auditor as well as the mandatory grace periods were complied with. LSI Software S.A. has a policy for the selection of an audit firm and a policy in terms of the provision to the issuer by the audit firm, an audit firm's affiliate or a member of its network of additional non-audit services, including services conditionally exempted from the audit firm's prohibition. In accordance with the corporate governance rules adopted by the Company's Management Board, the audit firm was appointed by the Supervisory Board by way of Resolution No. 12/RN/2018 of 28 May 2018 on the selection of the audit firm. The Supervisory Board made this selection with a view to ensuring full independence and objectivity of the selection itself and the performance of the tasks by the statutory auditor acting on behalf of the audit firm.

The Audit Committee of LSI Software S.A. Supervisory Board was appointed by the Supervisory Board under Resolution No. 13/RN/2017 of 21 September 2017 based on the Act on Statutory Auditors, Audit Firms and Public Supervision (Journal of Laws No. 2017, item 1089), pursuant to §2 of the Rules of LSI Software S.A. Supervisory Board's Audit Committee. In 2020 the Committee held four meetings, which were also attended by the then 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 2020, there were changes to the composition of the Audit Committee. On 25 June 2020, Mr. Grzegorz Siewiera resigned from his position as Member of the Audit Committee of LSI Software S.A. Then, on 17 September 2020, the Supervisory Board appointed Mrs. Jolanta Drelich to the Audit Committee as a Member 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.

| | |
|---|---|
| *Grzegorz Siewiera* | *Bartłomiej Grduszak* |
| *President of the Management Board* | *Vice-President of the Management Board* |
| *Michał Czwojdziński* | *Grzegorz Strąk* |
| *Member 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 2020,
- separate financial statement of LSI Software for the year 2020,
- consolidated financial statement of LSI Software Group for the year 2020.

As a result of the assessment performed, the Supervisory Board concluded that the report on the business activities of the Company and the Group for the year 2020, 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 2020 audited by a statutory auditor.

Furthermore, the Supervisory Board considers that the separate financial statement for the year 2020, the consolidated financial statement for the year 2020 and the report on the activities of the Company and the Group for the year 2020 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 2020, 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 2020, the consolidated financial statement for the year 2020 and the report on the activities of the Company and the Group for the year 2020 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 31.12.2020 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

| | 01.01.2020 - 31.12.2020 | | 01.01.2019 - 31.12.2019 | |
|---|---|---|---|---|
| | PLN | EUR | PLN | EUR |
| **PROFIT AND LOSS ACCOUNT** | | | | |
| Net revenue from the sale of products, goods and materials | 43 075 | 9 627 | 51 611 | 11 998 |
| Cost of sales | 40 390 | 9 027 | 41 598 | 9 670 |
| Profit (loss) on operating activities | 1 663 | 372 | 6 413 | 1 491 |
| Gross profit (loss) | 1 746 | 390 | 6 651 | 1 546 |
| Net profit (loss) | 2 402 | 537 | 6 196 | 1 440 |
| 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) | 0,74 | 0,16 | 1,90 | 0,44 |

| **BALANCE SHEET** | | | | |
|---|---|---|---|---|
| Fixed assets | 29 194 | 6 326 | 28 365 | 6 661 |
| Current assets | 24 786 | 5 371 | 26 099 | 6 129 |
| Equity | 39 848 | 8 635 | 37 446 | 8 793 |
| Long-term liabilities | 3 767 | 816 | 4 410 | 1 036 |
| Short-term liabilities | 10 365 | 2 246 | 12 608 | 2 961 |
| Book value per share (PLN / EUR) | 12,22 | 2,65 | 11,48 | 2,70 |

| **CASH FLOW STATEMENT** | | | | |
|---|---|---|---|---|
| Net cash flow from operating activities | 9 850 | 2 202 | 6 155 | 1 431 |
| Net cash flow from investing activities | -3 723 | -832 | -5 144 | -1 196 |
| Net cash flow from financing activities | 1 802 | 403 | -2 469 | -574 |

| 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 |
|---|---|---|---|---|
| 01.01-31.12.2020 | 4,4742 | 4,2279 | 4,6330 | 4,6148 |
| 01.01-31.12.2019 | 4,3018 | 4,2406 | 4,3891 | 4,2585 |

*) 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.

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 2020: 1 USD = 3,7584 PLN
• exchange rate applicable on 31 December 2019: 1 USD = 3,7977 PLN

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

# D. Annual consolidated financial statement for the period from 1 January 2020 to 31 December 2020

## General information

### I. Parent Company'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 Group 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 Group's key strength is over 30 years of experience in the market. The mission of LSI Software S.A. is to provide modern IT solutions supporting the operations of companies and enabling their effective and comprehensive management. Group's companies are long-time partners of global companies such as Microsoft or Posiflex. This results in access to the most advanced technologies and specialized equipment used in the world. LSI Software Group's companies operate on the Polish and foreign markets, striving to expand into European and global markets.

### II. Duration of an entity

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

### III. Presented periods

The consolidated financial statement contains data for the period from 1 January 2020 to 31 December 2020. Comparative data is presented as at 31 December 2019 for the consolidated balance sheet and for the period from 1 January 2019 to 31 December 2019 for the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and the statement of changes in consolidated equity.

### IV. Composition of Parent Company's Management and Supervisory Boards as at 31 December 2020

**Management Board:**

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

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

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

On 7 July 2020, the General Meeting appointed Mr. Grzegorz Siewiera as President of the Management Board and Mr. Bartłomiej Grduszak as Vice-President of the Management Board. At the same time, Mr. Michał Czwojdziński, the previous Vice-President of the Management Board, assumed the function of a Member of the Management Board

**Supervisory Board:**

| | | |
|---|---|---|
| Krzysztof Wolski | - | Chairman of the Supervisory Board |
| Piotr Kraska | - | Vice-Chairman of the Supervisory Board |
| Andrzej Kurkowski | - | Member of the Supervisory Board |
| Maciej Węgierski | - | Member of the Supervisory Board |
| Jolanta Drelich | - | Member of the Supervisory Board |

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

On 25 June 2020, Mr. Grzegorz Siewiera resigned from the position of Chairman of the Supervisory Board of LSI Software S.A. In turn, on 7 July 2020, the General Meeting appointed Mrs. Jolanta Drelich as a new Member of the Supervisory Board.

## V. Audit firm:

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

## VI. Legal Advisers

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

## VII. Banks

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

## VIII. Listing on regulated market

### 1. General information:

| | |
|---|---|
| **Stock Exchange:** | **Warsaw Stock Exchange**<br>Książęca 4 St.<br>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

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

| | | |
|---|---|---|
| 3. | **Investor Relations:** | **LSI Software S.A.**<br>Przybyszewskiego 176/178 St. 93-120 Łódź<br>Head of the Management Board Office – Aneta Czerwińska, tel.: 42 680 80 00 int. 134<br>inwestorzy@lsisoftware.pl |

## IX. Significant Shareholders

As at 7 July 2020, 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 | 366 080 | 366 080 | 11,23 | 1 830 400 | 37,66 |
| Other shareholders | 2 894 682 | 2 894 682 | 88,77 | 3 030 362 | 62,34 |
| **Total** | **3 260 762** | **3 260 762** | **100,00** | **4 860 762** | **100,00** |

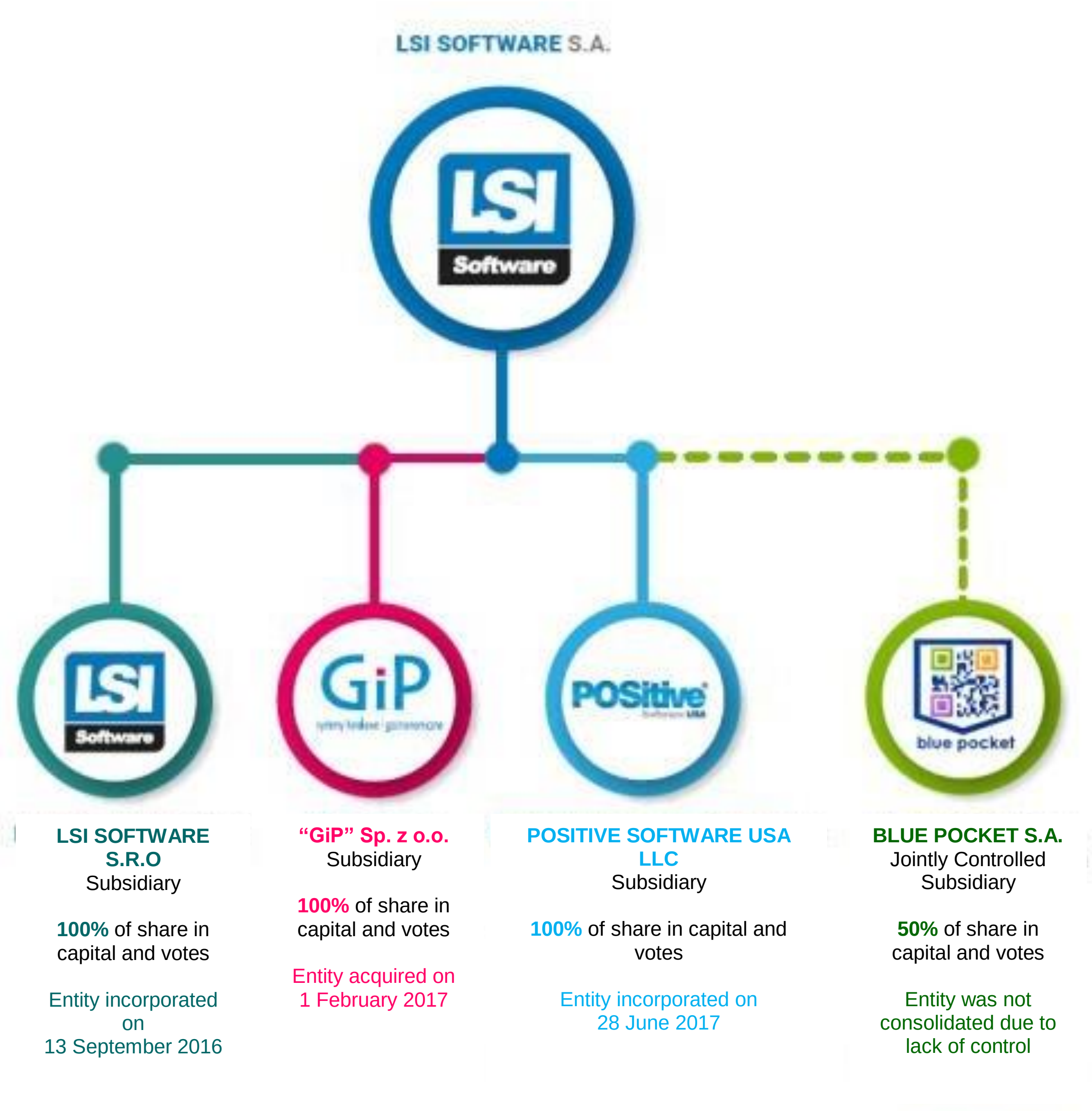
## X. Subsidiary undertakings

- **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)

## XI. Jointly controlled subsidiary undertakings

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

## XII. Graphical presentation of the Group




## XIII. Approval of the financial statement for publication

This annual consolidated financial statement was approved for publication by the Parent Company's Management Board on 30 April 2021.

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

# Annual consolidated financial statement of LSI Software Group

## Consolidated profit and loss account

| | NOTE | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|---|
| Continuing operations | | | |
| **Sales revenues** | 1, 2 | **43 075** | **51 611** |
| Revenues from sales of products | | 9 415 | 12 145 |
| Revenues from sales of services | | 12 787 | 15 820 |
| Revenues from sales of goods and materials | | 20 873 | 23 646 |
| **Cost of products, goods and materials sold** | 2, 3 | **40 390** | **41 598** |
| Manufacturing costs of products and services sold | | 25 298 | 25 708 |
| Value of goods and materials sold | | 15 092 | 15 890 |
| ***Gross profit (loss) on sales*** | | ***2 685*** | ***10 013*** |
| Other operating income | 4 | 4 330 | 2 348 |
| Sales costs | 3 | 977 | 1 530 |
| General and administrative costs | 3 | 3 026 | 3 979 |
| Expenditure on research and development | | 8 345 | 8 521 |
| Other operating costs | 4 | 1 349 | 439 |
| ***Profit (loss) on operating activities*** | | ***1 663*** | ***6 413*** |
| Financial income | 5 | 550 | 528 |
| Financial costs | 5 | 467 | 290 |
| Share in net profit (loss) of entities accounted for using the equity method | | 0 | 0 |
| ***Profit (loss) before tax*** | | ***1 746*** | ***6 651*** |
| Income tax | 6 | -656 | 455 |
| ***Net profit (loss) from continuing operations*** | | ***2 402*** | ***6 196*** |
| Profit (loss) on discontinued operations | 7 | 0 | 0 |
| **Net profit (loss)** | | ***2 402*** | ***6 196*** |
| **Net profit (loss) per share (in PLN)** | 8 | **0,74** | **1,90** |
| Basic for the financial period | | 0,74 | 1,90 |
| Diluted for the financial period | | 0,74 | 1,90 |
| Net profit (loss) per share from continuing operations (in PLN) | | | |
| Basic for the financial period | | 0,74 | 1,90 |
| Diluted for the financial period | | 0,74 | 1,90 |
| **Net profit (loss) per share from discontinued operations (PLN)** | | **0,00** | **0,00** |

**Łódź, 30 April 2021**

*Grzegorz Siewiera*

*President of the Management Board*

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Michał Czwojdziński*

*Member of the Management Board*

*Grzegorz Strąk*

*Member of the Management Board*

**Signature of a person preparing the financial statement:**

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Dariusz Górski*

*Chief Accountant*

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

## Consolidated statement of comprehensive income

| | NOTE | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|---|
| ***Net profit (loss)*** | | ***2 402*** | ***6 196*** |
| **Items to be reclassified to profit and loss account in subsequent periods** | | ***0*** | ***0*** |
| Foreign exchange differences on the translation of units operating abroad | | | |
| Foreign exchange differences on translation of entities accounted for using the equity method | | | |
| Net loss from securing the share in net assets of entities operating abroad | | | |
| Net change in fair value of available-for-sale financial assets | | | |
| Net change in fair value of available-for-sale financial assets reclassified to profit or loss of the current period | | | |
| The effective portion of changes in fair value of cash flow hedges | | | |
| Net change in fair value of cash flow hedges reclassified to profit or loss of the current period | | | |
| Income tax related to components of other comprehensive income | | | |
| **Items that will not be reclassified to the profit and loss account in subsequent periods** | | ***0*** | ***0*** |
| Revaluation of tangible fixed assets | | | |
| Actuarial gains (losses) on benefit plans | | | |
| Share in total income of affiliated undertakings * | | | |
| Income tax related to components of other comprehensive income | | | |
| ***Total comprehensive income*** | 10, 11 | ***2 402*** | ***6 196*** |
| | | | |
| Total comprehensive income attributable to non-controlling shareholders | | | |
| **Total comprehensive income attributable to Parent Company** | | ***2 402*** | ***6 196*** |

**Łódź, 30 April 2021**

*Grzegorz Siewiera*

*President of the Management Board*

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Michał Czwojdziński*

*Member of the Management Board*

*Grzegorz Strąk*

*Member of the Management Board*

**Signature of a person preparing the financial statement:**

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Dariusz Górski*

*Chief Accountant*

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

## Consolidated statement of financial position

| ASSETS | NOTE | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **Fixed assets** | | **29 194** | **28 365** |
| Fixed tangible assets | 13 | 9 196 | 9 557 |
| Intangible assets | 14 | 13 042 | 12 662 |
| Right-of-use assets | 13 | 2 129 | 2 344 |
| Goodwill | 15 | 2 823 | 2 522 |
| Investment property | 16 | 0 | 0 |
| Investments in associates accounted for using the equity method | 17 | 0 | 0 |
| Shares and participating interests in subordinated undertakings not subject to consolidation | 18 | 0 | 0 |
| Financial assets available for sale | 20 | 0 | 0 |
| Other financial assets | 22, 41 | 0 | 0 |
| Deferred tax assets | 6 | 2 004 | 1 280 |
| Other fixed assets | 19 | 0 | 0 |
| **Current assets** | | **24 786** | **26 099** |
| Inventory | 23 | 3 213 | 4 859 |
| Trade receivables | 25 | 6 476 | 14 685 |
| Current income tax receivables | | 568 | 19 |
| Other receivables | 26 | 752 | 930 |
| Financial assets available for sale | 20 | 0 | 0 |
| Financial assets measured at fair value through profit or loss | 21 | 0 | 0 |
| Other financial assets | 22, 41 | 0 | 0 |
| Prepayments | 27 | 581 | 407 |
| Cash and cash equivalents | 28 | 13 196 | 5 199 |
| **Assets classified as held for sale** | | 0 | 0 |
| **TOTAL ASSETS** | | **53 980** | **54 464** |

**Łódź, 30 April 2021**

*Grzegorz Siewiera*

*President of the Management Board*

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Michał Czwojdziński*

*Member of the Management Board*

*Grzegorz Strąk*

*Member of the Management Board*

**Signature of a person preparing the financial statement:**

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Dariusz Górski*

*Chief Accountant*

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

| LIABILITIES | NOTE | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **Equity** | | **39 848** | **37 446** |
| ***Equity attributable to shareholders of a Parent Company*** | | ***39 848*** | ***37 446*** |
| Share capital | 29 | **3 261** | **3 261** |
| Statutory capital reserve from share premium | 30 | **8 150** | **8 150** |
| Own shares (negative value) | | -609 | -609 |
| Other provisions | 31 | 2 060 | 2 060 |
| Foreign exchange translation differences | | 0 | 0 |
| Retained earnings | 32 | 24 584 | 18 388 |
| Financial result of the current period | | 2 402 | 6 196 |
| ***Equity attributable to non-controlling shareholders*** | *33* | ***0*** | ***0*** |
| **Long-term liabilities** | | **3 767** | **4 410** |
| Bank and non-bank loans | 34 | 339 | 790 |
| Lease and other liabilities | 35,41 | 2 433 | 2 695 |
| Other long-term liabilities | 36 | 0 | 0 |
| Deferred income tax provision | 6 | 993 | 924 |
| Accruals | 42 | 0 | 0 |
| Provisions for retirement and similar benefits | 43 | 2 | 1 |
| Other provisions | 44 | 0 | 0 |
| **Short-term liabilities** | | **10 365** | **12 608** |
| Bank and non-bank loans | 34 | 602 | 602 |
| Lease and other liabilities | 35,41 | 867 | 737 |
| Trade liabilities | 37 | 2 816 | 8 636 |
| Current income tax liabilities | | 0 | 67 |
| Other liabilities | 38 | 5 626 | 2 253 |
| Accruals | 42 | 304 | 191 |
| Provisions for retirement and similar benefits | 43 | 2 | 2 |
| Other provisions | 44 | 148 | 120 |
| Liabilities directly related to assets classified as held for sale | | **0** | **0** |
| **TOTAL LIABILITIES** | | **53 980** | **54 464** |
| Book value per share | | **12,22** | **11,48** |

**Łódź, 30 April 2021**

*Grzegorz Siewiera*

*President of the Management Board*

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Michał Czwojdziński*

*Member of the Management Board*

*Grzegorz Strąk*

*Member of the Management Board*

**Signature of a person preparing the financial statement:**

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Dariusz Górski*

*Chief Accountant*

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

## Statement of changes in equity

| | Share capital | Statutory capital reserve from share premium | Other reserves | Own shares | Retained earnings | Financial result of the current period | Equity attributable to the shareholders of a Parent Company | Equity attributable to non-controlling shareholders | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **12 months ended 31.12.2020** | | | | | | | | | |
| **Equity as at 1 January** | **3 261** | **8 150** | **2 060** | **-609** | **24 584** | **0** | **37 446** | **0** | **37 446** |
| Changes in accounting policies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Corrections of errors in previous periods | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Equity after corrections** | **3 261** | **8 150** | **2 060** | **-609** | **24 584** | **0** | **37 446** | **0** | **37 446** |
| Net profit distribution | **0** | **0** | **0** | **0** | **0** | **0** | 0 | 0 | 0 |
| Purchase of own shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Contributions (payments) in the form of own shares | **0** | **0** | **0** | **0** | **0** | **0** | 0 | 0 | 0 |
| Business combinations | **0** | **0** | **0** | **0** | **0** | **0** | 0 | 0 | 0 |
| Dividend payment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total comprehensive income | 0 | 0 | 0 | 0 | 0 | 2 402 | 2 402 | 0 | 2 402 |
| **Equity as at 31 December** | **3 261** | **8 150** | **2 060** | **-609** | **24 584** | **2 402** | **39 848** | **0** | **39 848** |
| **12 months ended 31.12.2019** | | | | | | | | | |
| **Equity as at 1 January** | **3 261** | **8 150** | **2 060** | **-609** | **19 994** | **0** | **32 856** | **0** | **32 856** |
| Changes in accounting policies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Corrections of errors in previous periods | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Equity after corrections** | **3 261** | **8 150** | **2 060** | **-609** | **19 994** | **0** | **32 856** | **0** | **32 856** |
| Net profit distribution | **0** | **0** | **0** | **0** | **0** | 0 | 0 | 0 | 0 |
| Purchase of own shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Contributions (payments) in the form of own shares | **0** | **0** | **0** | **0** | **0** | 0 | 0 | 0 | 0 |
| Business combinations | **0** | **0** | **0** | **0** | **0** | 0 | 0 | 0 | 0 |
| Dividend payment | 0 | 0 | 0 | 0 | -1 606 | 0 | -1 606 | 0 | -1 606 |
| Total comprehensive income | 0 | 0 | 0 | 0 | 0 | 6 196 | 6 196 | 0 | 6 196 |
| **Equity as at 31 December** | **3 261** | **8 150** | **2 060** | **-609** | **18 388** | **6 196** | **37 446** | **0** | **37 446** |

**Łódź, 30 April 2021**

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

**Signature of a person preparing the financial statement:**

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

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

## Consolidated cash flow statement

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Profit (loss) before tax** | **1 746** | **6 651** |
| ***Total adjustments*** | **8 924** | **-309** |
| Share in net profit of subordinated entities accounted for with the use of equity method | 0 | 0 |
| Amortisation and depreciation | 4 715 | 4 762 |
| Foreign exchange gains/losses | -68 | 68 |
| Interests and share in profits (dividends) | 131 | 149 |
| Profit / loss on investing activities | -153 | -77 |
| Change in reserves | 98 | 474 |
| Change in inventory | 1 646 | -1 924 |
| Change in receivables | 9 399 | -3 757 |
| Change in liabilities excluding bank and non-bank loans | -7 402 | 1 540 |
| Change in other assets | 558 | -1 525 |
| Other adjustments arising in connection with operating activities | 0 | -19 |
| **Cash on operating activities** | **10 670** | **6 342** |
| Interests paid | 0 | 0 |
| Income tax (paid) / reimbursed | -820 | -187 |
| **Net cash flow from operating activities** | **9 850** | **6 155** |
| **INVESTING ACTIVITIES** | | |
| **Inflows** | **201** | **395** |
| Disposal of intangible assets and fixed tangible assets | 180 | 107 |
| Disposal of investments in immovable property | 0 | 0 |
| Disposal of financial assets | 0 | 0 |
| Other investment inflows | 21 | 73 |
| Repayment of long-term loans granted | 0 | 215 |
| **Outflows** | **3 924** | **5 539** |
| Acquisition of intangible assets and fixed tangible assets | 3 623 | 5 537 |
| Acquisition of investments in immovable property | 0 | 0 |
| Acquisition of financial assets | 301 | 0 |
| Other investment outflows | 0 | 2 |
| **Net cash flow from investing activities** | **-3 723** | **-5 144** |
| **FINANCING ACTIVITIES** | | |
| **Inflows** | **3 257** | **639** |
| Net inflows from issues of shares and other equity instruments and from capital contributions | 0 | 0 |
| Bank and non-bank loans | 0 | 400 |
| Issue of debt securities | 0 | 0 |
| Other financial inflows | 3 257 | 239 |
| **Outflows** | **1 455** | **3 108** |
| Acquisition of own shares | 0 | 0 |
| Dividends and other payments to owners | 0 | 1 606 |
| Profit distributions other than payments to owners | 0 | 0 |
| Repayment of bank and non-bank loans | 452 | 556 |
| Redemption of debt securities | 0 | 0 |
| For other financial liabilities | 0 | 0 |
| Financial lease payments | 872 | 795 |
| Interests | 131 | 151 |
| Other financial outflows | 0 | 0 |
| **Net cash flow from financing activities** | **1 802** | **-2 469** |
| **Total net cash flow (A + B + C)** | **7 929** | **-1 458** |
| **Balance sheet change in cash, including:** | **7 997** | **-1 526** |
| – Change in cash due to foreign exchange differences | 68 | -68 |
| **Cash at the beginning of the period** | **5 344** | **6 802** |
| **Cash at the end of period (F + D)** | **13 273** | **5 344** |

**Łódź, 30 April 2021**

*Grzegorz Siewiera*

*President of the Management Board*

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Michał Czwojdziński*

*Member of the Management Board*

*Grzegorz Strąk*

*Member of the Management Board*

**Podpis osoby sporządzającej sprawozdanie:**

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Dariusz Górski*

*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 consolidated financial statement for the year 2020 the Parent Company applied the same accounting policies as those adopted for the preparation of the consolidated financial statement for the year 2019, 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 2020.

In 2020, the Parent 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 2020.

### II. Going concern assumption and comparability of financial statements

The annual consolidated financial statement has been prepared on the assumption that the Company will continue as a going concern over 12 months following the last balance sheet date that is 31 December 2020. As at the date of signing the financial statement hereof, the Management Board of the Dominant Company does not identify any facts or circumstances that would indicate a threat to the continued operations in the period of 12 months after the balance sheet date and that would ensue from an intended or forced discontinuation or material limitation of current operations.

In the opinion of the Management Board of the Group, 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 Group's companies for the first quarter of 2021. The measures taken by the individual countries in which the Group conducts its operations will also significantly affect the level of revenue from foreign sales.

LSI Software Group has sufficient financial resources to continue its operations, including settlement of current liabilities. The Issuer 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 Group, 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 58.

Until the date of preparation of the annual consolidated financial statement for 2020, there were no events which have not but should have been included in the books of account for the reporting period.

## III. Consolidation principles

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

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

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

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

### *a) Subsidiary undertakings*

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

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

Non-controlling interests include interests in consolidated companies not held by the Group. Non-controlling interests are determined as the net value of the associate's assets attributable to the shareholders outside the Group as at the acquisition date. The identified non-controlling interests in the net assets of consolidated subsidiaries are recognized separately from the ownership interest of the Dominant Entity in such net assets. Non-controlling interests in net assets include:
(i) value of non-controlling interests at the date of the original business combination, calculated in accordance with IFRS 3, and
(ii) changes in equity attributable to non-controlling shares since the day of business combination.

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

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

### *c) Affiliated undertakings*

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

### *d) Joint Arrangements (joint venture and joint operations)*

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

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

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

### *e) Consolidated companies*

The consolidated financial statement hereof for the periods ended on 31 December 2020 and 31 December 2019 includes the following entities being part of the Group:

| | **Share in the total number of votes (%)** | |
|---|---|---|
| | **31.12.2020** | **31.12.2019** |
| LSI Software S.A. | Parent Company | |
| LSI Software s.r.o. | 100 | 100 |
| GiP Sp. z o.o. | 100 | 100 |
| Positive Software USA LLC | 100 | 100 |

### *f) Non-consolidated companies*

The following companies were not included in the consolidated financial statement for the reporting period ended on 31 December 2020:

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

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

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

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

**Presentation of financial statements with consideration of operating segments**

The scope of financial information in the Group's segment reporting is determined based on the requirements of IFRS 8. The result for a given segment is determined at the level of net profit. The Group adopted as the basic reporting scheme - division into geographical segments, i.e. linked to conducting business activity in various geographical areas defined according to the criterion of location of the registered office of a company being a part of the Group. Two segments have been separated:

- the domestic market (Poland) comprising data of LSI Software SA and GiP Sp. z o.o,
- other countries comprising LSI Software s.r.o. and Positive Software USA LLC.

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

**Operating revenues and costs**

In accordance with IFRS 15, the Group 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 Entity 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 licences),
- 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.

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

**Other revenues, costs, profits and losses**

Other operating revenues and costs are items that are indirectly related to the core business of the company. Financial costs and revenues are recognized in the results of the period to which they relate, except for costs directly attributable to the acquisition, construction of the asset. Advances received in connection with expected dividends from subsidiaries are recognised in the period in which they are received, thus analysing the subsidiary's ability to pay out the dividend, i.e. whether it has sufficient funds to do so.

**Government Grants**

Government grants are recognized if and only if there is reasonable assurance that the entity will comply with the conditions related to the grant and that the grant will be received. The grant is accounted for in the same way regardless of whether it is received in cash or as a reduction of liability to the government.

If a grant relates to a given cost item, it is recognized as revenue (or cost reduction) in proportion to the cost that the grant is intended to compensate.

If a grant relates to an asset, its fair value is recognised in a deferred income account and then gradually, by way of equal annual write-offs, charged to the income statement over the estimated useful life of the related asset through a reduction in depreciation expense. Grants are presented in assets by deducting the amount of a grant from the value of an asset that has been financed in whole or in part.

**Taxes**

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

**Deferred income tax**

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

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

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

**Fixed tangible assets**

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

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

Any other expenditures for repairs and maintenance are recognized in the profit and loss account.

Fixed assets are redeemed on a straight-line basis as from the month of their operational readiness over the period corresponding to the estimated period of their useful economic life, excluding the residual value.

Useful life periods applied:

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

**Intangible assets**

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

Useful life periods applied:

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

**Impairment loss on non-financial assets**

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

**Investment property**

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

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

**Lease**

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.

**Investments in subsidiary undertakings**

Investments in subsidiaries are assets acquired in order to obtain the economic benefits from the increase in the value of those assets, and receipt of dividends or other profits from them. They are measured at acquisition cost less impairment losses. With the exception of investments in subsidiaries, jointly controlled undertakings and affiliated undertakings recognized at acquisition cost in accordance with IAS 27 and IAS 28, financial assets and liabilities are recognized and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

**Financial assets and liabilities**

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

- lease liabilities,

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

**Inventory**

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

**Trade and other receivables**

Valuation of receivables as at the balance sheet day shall be carried out at the fair value of the payment less impairment losses.
Impairment losses shall also be established with regard to past due debts and not past due debts with a significant probability to become bad debts - at the amount of reliably estimated impairment loss. Mentioned impairment losses are recognized in other operating costs or in financial costs, depending on the types of business transactions, as a result of which these impairments arose.

**Prepayments and accruals**

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

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

This classification is flexible and accruals will be reclassified as the period of their further settlement from the balance sheet date changes. Prepayments included in assets are subsequently, depending on the lapse of time or the amount of benefits, written off against the relevant profit and loss accounts - until all costs previously included in assets are transferred to the result. The time and manner of settlement depends on the nature of the costs being settled.

**Cash and cash equivalents**

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

**Assets held for sale and discontinued operations**

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

### Share capital

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

### Reserves and provisions

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

### Employee benefits

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

### Bank borrowings and loans

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

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

### Trade and other liabilities

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

**Share-based payments**

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

**External borrowing costs**

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

**Dividend payment**

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

**Functional and presentation currency**

***a) Functional and presentation currency***

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

***b) Transactions and balances***

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

## V. Material values based on professional judgment and estimates

### a) Professional judgment

In the process of applying the accounting policies to the matters set out below, management's professional judgement, in addition to accounting estimates, was of the greatest importance.

### b) Uncertainty of estimates

Below is a list of 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 Group monitors the usefulness of assets for its operations on an ongoing basis. If there is any indication that an asset may be impaired, an impairment test is carried out.

**Valuation of provisions**

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

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

**Component of deferred tax assets**

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

**Fair value of financial instruments**

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

**Amortization/Depreciation rates**

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

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

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

## VI. Changes in accounting principles (policy)

The accounting policy adopted for the preparation of this financial statement for the year ended 31 December 2020 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 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.

- **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 optional 'concentration test' has been added to the standard, which simplifies the assessment of whether acquired assets and activities represent a business.

- **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.

- 7 **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.

In addition, as from 1 June 2020, following adoption by the European Commission in October 2020, the Group applies the Amendment to IFRS 16 Leases: Covid-19 related benefits. The Amendment was published on 28 May 2020 and is effective for annual periods beginning on or after 1 June 2020, with early application permitted. The amendment introduces a simplification in IFRS 16 which allows a modification to a lease to not be recognised if there are, for example, changes in payments related to the Covid-19 pandemic.

The implementation of the above standards did not have a material impact on the presented financial statement of the Group.

- **Changes introduced independently by the Group**

The Group did not make a presentation adjustment of the comparative data as at 31 December 2019 and for the financial year ended 31 December 2020.

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

In the financial statements hereof, the LSI Software Group 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 17 Insurance contracts**

The new standard was published on 18 May 2017 and amended on 25 June 2020 and applies to annual periods beginning on or after 1 January 2023. Early application is permitted (subject to parallel application of IFRS 15 and IFRS 9).

The standard replaces the existing regulations on insurance contracts (IFRS 4). IFRS 4 was also amended on 25 June 2020 - in terms of extending the period for insurers to be exempted from the application of IFRS 9 Financial Instruments until 1 January 2023. The Group will apply the new standard from 1 January 2023. At the date of the financial statement hereof, it is not possible to reliably estimate the impact of this new standard application.

- **Amendment to IAS 1 Presentation of Financial Statements: Classification of liabilities as short- and long-term**

The amendment to IAS 1 was published on 23 January 2020, the effective date was subsequently modified in July 2020 and applies to annual periods beginning on or after 1 January 2023.

The amendment redefines the criteria that must be met for a liability to be considered short-term. The amendment may affect changes in the presentation of liabilities and their reclassification between short-term and long-term liabilities.

The Group will apply the amended standard from 1 January 2023. At the date of the financial statement hereof, it is not possible to reliably estimate the impact of this new standard application.

- **Amendments to IFRS 3, IAS 16, IAS 37 and annual improvements to standards 2018-2020 (Annual improvements)**

The amendments to these standards were published on 14 May 2020 and are effective for annual periods beginning on or after 1 January 2022.

The amendments include a restriction on charging the cost of property, plant and equipment against the proceeds from the sale of test products generated in the process of creating/activating the property, plant and equipment.

The Group will apply the revised standards from 1 January 2022. At the date of the financial statement hereof, it is not possible to reliably estimate the impact of this new standard application.

- **Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Phase 2**

The amendments to these standards were published on 27 August 2020 and complete the first phase of changes to reporting arising from the interbank benchmark rate reform of September 2019. The amendments apply to annual periods beginning on or after 1 January 2021. The second phase amendments focus on the impact that the replacement of the existing benchmark rate with the new rate resulting from the reform will have on the measurement of, inter alia, financial instruments, lease liabilities.

The Issuer will apply the amended standards from 1 January 2021. At the date of the financial statement hereof, it is not possible to reliably estimate the impact of this new standard application.

- **Amendments to IAS 1 - Disclosure of accounting policies and IAS 8 - Definition of accounting estimates**

The amendments to these standards were published on 12 February 2021 and apply to annual periods beginning on or after 1 January 2023.

The purpose of these amendments is to place greater emphasis on the disclosure of significant accounting policies and to clarify the nature of differences between changes in accounting estimates and changes in accounting policies.

LSI Software Group will apply the revised standards from 1 January 2023. At the date of the financial statement hereof, it is not possible to reliably estimate the impact of this new standard application.

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 17 Insurance Contracts, published on 18 May 2017, as amended on 25 June 2020,
- Amendment to IAS 1 Presentation of Financial Statements: Classification of liabilities as short- and long-term, published on 23 January 2020, as amended on 15 July 2020,
- Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements to Standards 2018-2020 published on 14 May 2020,
- Amendments to IAS 1 - Disclosure of accounting policies and IAS 8 - Definition of accounting estimates published on 12 February 2021.

## VII. Derogation from the preparation of the consolidated financial statement in the ESEF format

- **Introduction**

On 15 December 2020, the Ministry of Finance and the Polish Financial Supervision Authority issued a notice on the postponement of the obligation to apply the European Single Electronic Format ("ESEF format"). According to mentioned notice, in connection with COVID-19, the Ministry of Finance and the Polish Financial Supervision Authority have decided to postpone by one year the obligation to use the ESEF in financial reporting for issuers whose securities are admitted to trading on a European Union regulated market. At the same time, the possibility of reporting for the year 2020 in this format will be maintained.

The notice issued by the Ministry of Finance and the Polish Financial Supervision Authority refers to the amendment of Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (hereinafter the "Transparency Directive"), announced by a press release of the European Commission of 11 December 2020. As indicated in the notice, the Ministry of Finance, in cooperation with the Polish Financial Supervision Authority, will develop regulations implementing the EU law into the Polish legal order immediately after the adoption of the amendment to the Transparency Directive and its publication in the Official Journal of the European Union.

- **Amendments to national law**

On 9 February 2021, during the first reading at the meeting of the Public Finance Committee of the Sejm of the Republic of Poland, an amendment was tabled to the draft law on amendments to the Banking Law and certain other laws (Sejm print no. 859), according to which an issuer whose securities have been admitted to trading on a regulated market may choose not to use the European Single Electronic Format within the meaning of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council in respect of regulatory technical standards for the specification of the European Single Electronic Format for annual reports and consolidated annual reports containing financial statements and consolidated financial statements, respectively, for the financial year beginning between 1 January and 31 December 2020, and prepare those reports under the current rules.

The Committee of Public Finance adopted this amendment, and on 25 February 2021 the Sejm of the Republic of Poland passed an act amending the Banking Law and certain other laws, which in Art. 24 includes the above regulation. Pursuant to Article 24.2 of this Act, the provision the content of which is described above also applies to annual reports and consolidated annual reports prepared before the date of its entry into force. Pursuant to Art. 26.1, Art. 24 will enter into force on the day following the date of announcement of the Act in the Journal of Laws.

On 26 February 2021, the adopted law was sent to the Marshal of the Senate for consideration by the Senate. On 10 March 2021, the Budget and Public Finance Committee of the Senate of the Republic of Poland reviewed the Act and moved for its adoption by the Senate of the Republic of Poland without amendments (Senate print no. 332A). As the legislative process is ongoing, the date for the Act to be passed and signed by the President of the Republic of Poland as well as its announcement is currently unknown. In the notice of the Polish Financial Supervision Authority on the legal status of the postponement of the obligation to use the ESEF of 19 February 2021, the Polish Financial Supervision Authority assumes that this shall happen as soon as possible.

- **Amendment to the Transparency Directive**

On 18 March 2021, Regulation (EU) 2021/337 of the European Parliament and of the Council of 16 February 2021 amending Regulation (EU) 2017/1129 as regards the EU Recovery prospectus and targeted adjustments for financial intermediaries and Directive 2004/109/EC as regards a single electronic reporting format for annual financial reports to help the recovery from the COVID-19 pandemic crisis entered into force.

This Regulation introduced an amendment to the Transparency Directive, under which issuers whose securities are admitted to trading on a regulated market established or operating in a Member State are required to prepare and disclose their annual financial reports in a single electronic reporting format from the financial year beginning on or after 1 January 2020. This single electronic reporting format was defined in Commission Delegated Regulation (EU) 2019/815. Pursuant to Regulation (EU) 2021/337 and the introduced amendment to the Transparency Directive, EU Member States were given the option to delay for one year (i.e. from the financial year beginning on or after 1 January 2021) the application of the requirement to prepare and disclose annual financial reports using the single electronic reporting format.

In order to have this option exercised, a Member State should notify the European Commission of its intention to allow issuers such a delay, and this intention should be duly justified. The European Commission, in providing a list of countries that have provided the relevant notification, has indicated that Poland notified the Commission on 15 March 2021 of its intention to exercise the delay option.

- **Decision of the Management Board of the Parent Company**

Under the laws applicable at the date of approval of this report for publication, this report should be prepared in XHTML format and appropriately marked with XBRL tags . Taking into account the legal status described above, the notice of 15 December 2020 issued by the Ministry of Finance and the Polish Financial Supervision Authority on the postponement of the obligation to use ESEF and the notice of 19 February 2021 issued by the Polish Financial Supervision Authority on the legal status of the postponement of the obligation to use ESEF and the fact that the changes in the legislation postponing the requirement to prepare financial statements in ESEF format will be retroactive and therefore will also apply to this financial report, the Management Board of the Company decided not to prepare this financial report in ESEF format.

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

# E. ADDITIONAL NOTES AND EXPLANATIONS TO THE CONSOLIDATED 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 licences),
- 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 - 31.12.2020 | 01.01 - 31.12.2019 |
|---|---|---|
| Continuing operations | | |
| Sales of goods and materials | 20 873 | 23 646 |
| Sales of products | 9 415 | 12 145 |
| Sales of services | 12 787 | 15 820 |
| **Sales revenues, TOTAL** | **43 075** | **51 611** |
| Other operating revenues | 4 330 | 2 348 |
| Financial revenues | 550 | 528 |
| **Revenues on continuing operations, TOTAL** | **47 955** | **54 487** |
| Revenues on discontinued operations | | |
| **TOTAL REVENUES** | **47 955** | **54 487** |

Revenues on discontinued operations were not recognized.

***Note 2. OPERATING SEGMENTS***

The scope of financial information in the Group's segment reporting is determined based on the requirements of IFRS 8. The result for a given segment is determined at the level of net profit. The Group adopted as the basic reporting scheme - division into geographical segments, i.e. linked to conducting business activity in various geographical areas defined according to the criterion of location of the registered office of a company being a part of the Group. Two segments have been separated:

- the domestic market (Poland) comprising data of LSI Software SA and GiP Sp. z o.o,
- other countries comprising LSI Software s.r.o. and Positive Software USA LLC.

The Group'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)

### Consolidated profit and loss account by segments

| 01.01 -31.12.2020 | Domestic market | Other countries | Consolidation exclusions | Total |
|---|---|---|---|---|
| Continuing activities | | | | |
| **Sales revenues** | **46 548** | **185** | **-3 658** | **43 075** |
| External sales | 46 548 | 43 | -3 516 | 43 075 |
| Sales between segments | 0 | 142 | -142 | 0 |
| Cost of products, goods and materials sold | **43 776** | **46** | **-3 432** | **40 390** |
| Manufacturing costs of products and services sold | 28 425 | 27 | -3 154 | 25 298 |
| Value of goods and materials sold | 15 351 | 19 | -278 | 15 092 |
| ***Gross profit (loss) on sales*** | ***2 772*** | ***139*** | ***-226*** | ***2 685*** |
| **Other operating income** | 4 319 | 11 | 0 | 4 330 |
| Sales costs | 823 | 154 | 0 | 977 |
| General and administrative costs | 3 236 | 16 | -226 | 3 026 |
| Other operating costs | 1 314 | 35 | 0 | 1 349 |
| Profit (loss) on operating activities | ***1 718*** | ***-55*** | ***0*** | ***1 663*** |
| Financial revenues, including: | 1 592 | 0 | -1 042 | 550 |
| Interest income | 282 | 0 | | 282 |
| Financial costs, including: | 463 | 4 | 0 | 467 |
| Interest costs | 462 | 4 | 0 | 466 |
| Share in net profit (loss) of entities accounted for using the equity method | 0 | 0 | 0 | 0 |
| **Profit (loss) before tax** | ***2 847*** | ***-59*** | ***-1 042*** | ***1 746*** |
| Income tax | -656 | 0 | 0 | -656 |
| **Net profit (loss) from continuing operations** | ***3 503*** | ***-59*** | ***-1 042*** | ***2 402*** |
| **Profit (loss) on discontinued operations** | 0 | 0 | 0 | 0 |
| **Net profit (loss)** | ***3 503*** | ***-59*** | ***-1 042*** | ***2 402*** |
| **Net profit (loss) attributed to Parent Company** | **3 503** | **-59** | **-1 042** | **2 402** |

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

### Consolidated profit and loss account by segments

| 01.01 -31.12.2019 | Domestic market | Other countries | Consolidation exclusions | Total |
|---|---|---|---|---|
| Continuing activities | | | | |
| **Sales revenues** | **54 050** | **73** | **-2 512** | **51 611** |
| External sales | 53 728 | 37 | -2 154 | 51 611 |
| Sales between segments | 322 | 36 | -358 | 0 |
| Cost of products, goods and materials sold | **43 725** | **83** | **-2 210** | **41 598** |
| Manufacturing costs of products and services sold | 27 244 | 83 | -1 619 | 25 708 |
| Value of goods and materials sold | 16 481 | 0 | -591 | 15 890 |
| ***Gross profit (loss) on sales*** | ***10 325*** | ***-10*** | ***-302*** | ***10 013*** |
| **Other operating income** | 2 320 | 28 | 0 | 2 348 |
| Sales costs | 1322 | 208 | 0 | 1 530 |
| General and administrative costs | 4 240 | 33 | -294 | 3 979 |
| Other operating costs | 428 | 19 | -8 | 439 |
| Profit (loss) on operating activities | ***6 655*** | ***-242*** | ***0*** | ***6 413*** |
| Financial revenues, including: | 1648 | 0 | -1120 | 528 |
| Interest income | 521 | 0 | | 521 |
| Financial costs, including: | 282 | 8 | 0 | 290 |
| Interest costs | 193 | 8 | 0 | 201 |
| Share in net profit (loss) of entities accounted for using the equity method | 0 | 0 | 0 | 0 |
| **Profit (loss) before tax** | ***8 021*** | ***-250*** | ***-1 120*** | ***6 651*** |
| Income tax | 455 | 0 | 0 | 455 |
| **Net profit (loss) from continuing operations** | ***7 566*** | ***-250*** | ***-1 120*** | ***6 196*** |
| **Profit (loss) on discontinued operations** | 0 | 0 | 0 | 0 |
| **Net profit (loss)** | ***7 566*** | ***-250*** | ***-1 120*** | ***6 196*** |
| **Net profit (loss) attributed to Parent Company** | **7 566** | **-250** | **-1 120** | **6 196** |

### Other information concerning operating segments

| | Domestic market | Other countries | Consolidation exclusions | Total |
|---|---|---|---|---|
| **31.12.2020** | | | | |
| Assets | 57 757 | 457 | -4 234 | **53 980** |
| Liabilities | 14 831 | 120 | -819 | **14 132** |
| **31.12.2019** | | | | |
| Assets | 58 219 | 629 | -4 384 | **54 464** |
| Liabilities | 17 756 | 231 | -969 | **17 018** |
| **01.01 – 31.12.2020** | | | | |
| Capital expenditure | 3 924 | 0 | 0 | **3 924** |
| Depreciation | 4 566 | 149 | 0 | **4 715** |
| Impairment of financial and non-financial assets | 798 | 0 | 0 | **798** |
| **01.01 – 31.12.2019** | | | | |
| Capital expenditure | 5 659 | 379 | -501 | **5 537** |
| Depreciation | 4 690 | 72 | 0 | **4 762** |
| Impairment of financial and non-financial assets | 280 | 0 | 0 | **280** |

The Group operates mainly in Poland. Revenues relating to segments outside Poland amount to approximately 9% of the respective values.

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

## Sales revenues - detailed geographic structure

| | 01.01 -31.12.2020 | | 01.01 -31.12.2019 | |
|---|---|---|---|---|
| | PLN | Share % | PLN | Share % |
| **Poland** | **39 270** | **91%** | **44 711** | **87%** |
| **Export, including:** | **3 805** | **9%** | **6 900** | **13%** |
| European Union | 847 | 2% | 877 | 2% |
| Countries of the former USSR | 45 | 0% | 99 | 0% |
| USA | 2 | 0% | 1 114 | 2% |
| Asia | 1 325 | 3% | 3 983 | 8% |
| Other | 1 586 | 4% | 827 | 2% |
| **Total** | **43 075** | **100%** | **51 611** | **100%** |

## Revenues by market segments

| | 01.01 - 31.12.2020 | | 01.01 - 31.12.2019 | |
|---|---|---|---|---|
| | PLN | Share % | PLN | Share % |
| Retail, including: | **8 472** | **20%** | **8 918** | **17%** |
| Goods | 4 430 | 52% | 4 730 | 53% |
| Licenses | 801 | 9% | 804 | 9% |
| Services, including | 3 241 | 38% | 3 384 | 38% |
| Fixed fees | 2 849 | - | 2 904 | - |
| Hospitality, including: | **32 847** | **76%** | **40 173** | **78%** |
| Goods | 15 462 | 47% | 17 622 | 44% |
| Licenses | 8 614 | 26% | 11 341 | 28% |
| Services, including | 8 770 | 27% | 11 210 | 28% |
| Fixed fees | 5 631 | - | 5 620 | - |
| Other, including: | **1 757** | **4%** | **2 520** | **5%** |
| Goods | 981 | 56% | 1 294 | 51% |
| Outsourcing | 776 | 44% | 1 217 | 48% |
| Rent/Tenancy | 0 | 0% | 9 | 0% |
| Total, including: | **43 075** | **100%** | **51 611** | **100%** |
| Goods | 20 873 | 48% | 23 646 | 46% |
| Licenses | 9 415 | 22% | 12 145 | 24% |
| Services | 12 011 | 28% | 14 594 | 28% |
| Outsourcing | 776 | 2% | 1 217 | 2% |
| Rent/Tenancy | 0 | 0% | 9 | 0% |

## Gross margin by market segments

| | 01.01 -31.12.2020 | | | 01.01 -31.12.2019 | | |
|---|---|---|---|---|---|---|
| | PLN | Share % | Return rate | PLN | Share % | Return rate |
| **Retail, including:** | **1 349** | **50%** | **16%** | **2 187** | **22%** | **25%** |
| Goods | 1 249 | 93% | 28% | 1 461 | 67% | 31% |
| Licenses | 28 | 2% | 3% | 280 | 13% | 35% |
| Services | 72 | 5% | 2% | 446 | 20% | 13% |
| **Hospitality, including:** | **1 048** | **39%** | **3%** | **7 412** | **74%** | **18%** |
| Goods | 4 256 | 406% | 28% | 5 905 | 80% | 34% |
| Licenses | -1 808 | -172% | -21% | 818 | 11% | 7% |
| Services | -1 400 | -134% | -16% | 689 | 9% | 6% |
| **Other, including:** | **288** | **11%** | **16%** | **414** | **4%** | **16%** |
| Goods | 276 | 96% | 28% | 390 | 94% | 30% |
| Outsourcing | 12 | 4% | 2% | 20 | 5% | 2% |
| Rent/Tenancy | 0 | 0% | - | 4 | 1% | 44% |
| **Total, including:** | **2 685** | **100%** | **6%** | **10 013** | **100%** | **19%** |
| Goods | 5 781 | 215% | 28% | 7 756 | 77% | 33% |
| Licenses | -1 780 | -66% | -19% | 1 098 | 11% | 9% |
| Services | -1 328 | -49% | -11% | 1 135 | 11% | 8% |
| Outsourcing | 12 | 0% | 2% | 20 | 0% | 2% |
| Rent/Tenancy | 0 | 0% | - | 4 | 0% | 44% |

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

***Note 3. OPERATING COSTS***

| COSTS BY TYPE | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Amortisation/depreciation | 4 715 | 4 762 |
| Consumption of materials and energy | 1 154 | 1 957 |
| Outsourced services | 10 598 | 10 886 |
| Taxes and charges | 531 | 554 |
| Remunerations | 12 681 | 12 713 |
| Social insurance and other benefits | 2 345 | 2 410 |
| Other costs | 1 150 | 1 717 |
| Guarantee provisions | 0 | 0 |
| **Total costs by type, including:** | **33 174** | **34 999** |
| Change in products | -3 873 | -3 782 |
| Cost of manufacturing of a product for the entity's own needs (negative value) | 0 | 0 |
| Selling costs (negative value) | -977 | -1 530 |
| General and administrative costs (negative value) | -3 026 | -3 979 |
| **Manufacturing costs of products and services sold** | **25 298** | **25 708** |

| DEPRECIATION COSTS AND IMPAIRMENT LOSSES RECOGNIZED IN THE PROFIT AND LOSS ACCCOUNT | 01.01 - 31.12.2020 | 01.01 - 31.12.2019 |
|---|---|---|
| **Items recognized in cost of sales:** | **4 576** | **4 602** |
| Depreciation of fixed assets | 1 182 | 952 |
| Depreciation of intangible assets | 3 394 | 3 650 |
| **Items recognized in selling costs:** | **0** | **0** |
| Depreciation of fixed assets | 0 | 0 |
| Depreciation of intangible assets | 0 | 0 |
| **Items recognized in general and administrative costs** | **139** | **160** |
| Depreciation of fixed assets | 136 | 147 |
| Depreciation of intangible assets | 3 | 13 |

| EMPLOYMENT COSTS | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Remunerations | 12 681 | 12 713 |
| Social insurance and other benefits | 2 345 | 2 410 |
| Employee benefits, TOTAL, including: | **15 026** | **15 123** |
| Items recognized in cost of sales | 13 807 | 13 600 |
| Items recognized in selling costs | 98 | 124 |
| Items recognized in general and administrative costs | 1 121 | 1 399 |

***Note 4. OTHER OPERATING REVENUES AND COSTS***

| OTHER OPERATING REVENUES | 01.01 - 31.12.2020 | 01.01 - 31.12.2019 |
|---|---|---|
| Profit from disposal of fixed assets | 132 | 51 |
| Release of provisions | 0 | 0 |
| Release of impairment loss on assets | 1 004 | 906 |
| Penalties, fines and damages received | 149 | 361 |
| Government grants | 2 968 | 913 |
| Liabilities write-offs | 26 | 63 |
| Reimbursement of costs of legal proceedings | 35 | 14 |
| Other | 16 | 40 |
| **TOTAL** | **4 330** | **2 348** |

| OTHER OPERATING COSTS | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Loss on disposal of fixed assets | 0 | 0 |
| Recognition of provisions | 1 | 1 |
| Liabilities write-offs | 208 | 0 |
| Penalties and compensations paid | 121 | 82 |
| Recognition of impairment | 798 | 280 |
| Court fees and costs | 72 | 47 |
| Other | 149 | 29 |
| **TOTAL** | **1 349** | **439** |

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

| RECOGNITION OF IMPAIRMENT LOSSES | 01.01 - 31.12.2020 | 01.01 - 31.12.2019 |
|---|---|---|
| Receivables | -206 | -626 |
| Inventory | 0 | 0 |
| **TOTAL** | **-206** | **-626** |

### *Note 5. FINANCIAL REVENUES AND COSTS*

| FINANCIAL REVENUES | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Interest revenues | 282 | 521 |
| Profit on disposal of debt claims | 0 | 7 |
| Surplus of foreign exchange gains | 247 | 0 |
| Net profit on disposal of financial instruments | 21 | 0 |
| Other | 0 | 0 |
| **TOTAL** | **550** | **528** |

| FINANCIAL COSTS | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Interest costs | 466 | 201 |
| Surplus of foreign exchange losses | 1 | 89 |
| Other | 0 | 0 |
| **TOTAL** | **467** | **290** |

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

| 01.01 – 31.12.2020 | Measurement at amortized cost | Measurement at fair value through profit or loss | Measurement at fair value through other comprehensive income |
|---|---|---|---|
| Revenues/costs arising on measurement at fair value | 0 | 0 | 0 |
| Revenues/costs arising on measurement at fair value transferred to equity | 0 | 0 | 0 |
| Interests revenues/costs | 0 | -184 | 0 |
| Interest revenues related to impaired assets | 0 | 0 | 0 |
| Recognition of impairment losses | 0 | 0 | 0 |
| Reversal of impairment losses | 0 | 0 | 0 |
| Foreign exchange gains/losses | 0 | 246 | 0 |
| Gains/losses on disposal of financial assets | 0 | 21 | 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** | **83** | **0** |

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

| 01.01 – 31.12.2019 | Measurement at amortized cost | Measurement at fair value through profit or loss | Measurement at fair value through other comprehensive income |
|---|---|---|---|
| Revenues/costs arising on measurement at fair value | 0 | 0 | 0 |
| Revenues/costs arising on measurement at fair value transferred to equity | 0 | 0 | 0 |
| Interests revenues/costs | 0 | 320 | 0 |
| Interest revenues related to impaired assets | 0 | 0 | 0 |
| Recognition of impairment losses | 0 | 0 | 0 |
| Reversal of impairment losses | 0 | 0 | 0 |
| Foreign exchange gains/losses | 0 | -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** | **238** | **0** |

***Notae 6. INCOME TAX AND DEFERRED INCOME TAX***

The main components of the tax burdens for the years ended 31 December 2020 and 2019 are as follows:

| INCOME TAX DISCLOSED IN THE PROFIT AND LOSS ACCOUNT | 01.01 - 31.12.2020 | 01.01 - 31.12.2019 |
|---|---|---|
| **Current income tax** | **0** | **447** |
| Related to the financial year | 0 | 447 |
| **Deferred income tax** | **-656** | **8** |
| Related to the occurrence and reversal of temporary differences | -656 | 8 |
| **Tax burden disclosed in the consolidated income statement** | **-656** | **455** |

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

| CURRENT INCOME TAX | 01.01 - 31.12.2020 | 01.01 - 31.12.2019 |
|---|---|---|
| **Profit before tax** | **1 746** | **6 651** |
| Previous years' revenues increasing the tax base | 80 | 83 |
| Non-taxable revenue | 3 032 | 2 765 |
| Previous years' costs decreasing the tax base | 1 622 | 1 272 |
| Non-deductible costs | 3 228 | 2 959 |
| **Taxable income** | **400** | **5 656** |
| Deductions from income - donation, loss, R&D relief | 5 753 | 4 675 |
| **Tax base** | **-5 353** | **981** |
| Income tax at the rate of 19% | -1 017 | 186 |
| Effective tax rate (share of income tax in pre-tax profit) | **-37,6%** | **6,8%** |

The current income tax was set at a rate of 19% for 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 DEFERRED INCOME TAX ASSET RECOGNITION | 31.12.2019 | increases | decreases | 31.12.2020 |
|---|---|---|---|---|
| Provision for jubilee awards and retirement benefits | 3 | 1 | 0 | 4 |
| Accrued employee holiday provision | 88 | 95 | 67 | 116 |
| Other provisions | 0 | 0 | 32 | 0 |
| Lease liabilities | 3 369 | 0 | 74 | 3 295 |
| Outstanding costs of business trips | 4 | 0 | 3 | 1 |
| Foreign exchange losses | 157 | 0 | 98 | 59 |
| Remunerations and social insurance payable in the subsequent periods | 370 | 0 | 42 | 328 |
| Impairment loss on shares in other entities | 2 305 | 0 | 0 | 2 305 |
| Impairment loss on inventory | 258 | 0 | 0 | 258 |
| Impairment loss on receivables | 179 | 0 | 154 | 25 |
| Tax reliefs | 0 | 4 158 | 0 | 4 158 |
| Other | 2 | 0 | 2 | 0 |
| **Total negative temporary differences** | **6 735** | **4 254** | **440** | **10 549** |
| tax rate | 19% | 19% | 19% | 19% |
| **Deferred income tax assets** | **1 280** | **808** | **84** | **2 004** |

| TAXABLE TEMPORARY DIFFERENCES BEING THE BASIS FOR DEFERRED INCOME TAX PROVISION RECOGNITION | 31.12.2019 | increases | decreases | 31.12.2020 |
|---|---|---|---|---|
| Foreign exchange gains and accrued interest | 322 | 158 | 0 | 480 |
| Valuation of fixed assets under lease | 3 758 | 115 | 0 | 3 873 |
| Accrued interest | 265 | 0 | 36 | 229 |
| Remeasurement of available-for-sale financial assets to fair value | 267 | 0 | 13 | 254 |
| Contractual penalties charged | 250 | 250 | 0 | 250 |
| Unpaid sales invoices | 0 | 138 | 0 | 138 |
| **Taxable temporary differences, total** | **4 863** | **411** | **49** | **5 225** |
| Tax rate | 19% | 19% | 19% | 19% |
| **Deferred tax provision at the end of reporting period** | **924** | **78** | **9** | **993** |

## Net deferred income tax assets / provisions

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Deferred income tax assets | 2 004 | 1 280 |
| Deferred income tax provision – continuing operations | 993 | 924 |
| **Net deferred income tax assets / provisions** | **1 011** | **356** |

***Note 7. DISCONTINUED OPERATIONS***

There were no discontinued operations in the reporting period.

***Note 8. PROFIT PER SHARE***

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

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

### Continuing and discontinued operations

### Calculation of profit per share was based on the following information:

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Net profit from continuing operations | 2 402 | 6 196 |
| **Profit recognized for the purposes of calculating the basic profit per share** | **2 402** | **6 196** |
| 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** | **2 402** | **6 196** |

### Number of shares issued

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| **Weighted average number of shares recognized for the purposes of calculating the basic profit per share per share (in pcs.)** | **3 260 762** | **3 260 762** |
| Effect of dilution of the number of ordinary shares | | |
| - share options | 0 | 0 |
| - bonds convertible into shares | 0 | 0 |
| **Weighted average number of shares recognized for the purposes of calculating the diluted profit per share per share (in pcs.)** | **3 260 762** | **3 260 762** |

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 |
| **31.12.2020** | - | - | - | - | 0 | 0 |
| **31.12.2019** | - | - | - | - | 0 | 0 |

***Note 10. DISCLOSURE OF OTHER COMPONENTS OF COMPREHENSIVE INCOME***

| | 01.01 - 31.12.2020 | 01.01 - 31.12.2019 |
|---|---|---|
| **Changes in surplus arising on revaluation:** | **0** | **0** |
| - Increase resulting from the revaluation of assets during the year | | |
| - Decrease resulting from the revaluation of assets during the year | | |
| **Profit (loss) on revaluation of available-for-sale financial assets:** | **0** | **0** |
| - Profit on the revaluation of assets during the year | | |
| - Loss on the revaluation of assets during the year | | |
| - Adjustment arising on reclassification to the profit and loss account | | |
| **The effective portion of profit and loss related to cash flow hedging instruments:** | **0** | **0** |
| - Profit generated during the year | | |
| - Loss incurred during the year | | |
| - Adjustment arising on reclassification to the profit and loss account | | |
| - Adjustment of amounts transferred to the initial carrying amount of hedged items | | |
| **Actuarial profit (loss) on defined benefit plans:** | **0** | **0** |
| Actuarial profit on defined retirement benefit plans | | |
| Actuarial loss on defined retirement benefit plans | | |
| **Exchange rate differences from valuation of entities operating abroad** | **0** | **0** |
| - Adjustment arising on reclassification to the profit and loss account | | |
| **Share in comprehensive income of affiliated undertakings** | | |
| **Income tax related to components of other comprehensive income** | **0** | **0** |
| **Comprehensive income, total** | **0** | **0** |

***Note 11. TAX EFFECT OF OTHER COMPREHENSIVE INCOME***

| | **01.01 -31.12.2020** | | | **01.01 -31.12.2019** | | |
|---|---|---|---|---|---|---|
| | **Pre-tax amount** | **Tax** | **After-tax amount** | **Pre-tax amount** | **Tax** | **After-tax amount** |
| 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 measurement of the Group's land and buildings as at **31 December 2020 and 31 December 2019** 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 2020** 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 on an active market<br>Level 1 | Significant observable data<br>Level 2 | Significant observable data<br>Level 3 |
| **Assets measured at fair value** | | | | | |
| **Investment property** | | | | | |
| - office space | 19.08.2016 | | | | |
| - retail space | 31.12.2020 | | | | |
| ***Derivatives*** | | | | | |
| Currency forward contract - USD | 31.12.2020 | | | | |
| **Financial assets available for sale** | | | | | |
| - shares listed on the stock exchange | | | | | |
| - unlisted shares | 31.12.2020 | | | | |
| - listed debt securities | | | | | |
| **Revalued tangible fixed assets** | | | | | |
| - office immovable property | 19.08.2016 | 500 | | | 500 |
| redemption value | 31.12.2020 | 25 | | | 25 |
| Discontinued operations | 31.12.2020 | | | | |
| | | | | | |
| **Assets which fair value is subject to disclosure** | | | | | |
| **Loans granted and receivables** | | | | | |
| - loans granted to subsidiaries | 31.12.2020 | | | | |
| - loans granted to Management Board | 31.12.2020 | | | | |
| - loans granted to Supervisory Board | 31.12.2020 | | | | |
| | | | | | |
| **Liabilities measured at fair value** | | | | | |
| **Derivatives** | | | | | |
| - Currency forward contract - USD | 31.12.2020 | | | | |
| - interest rate swap | 31.12.2020 | | | | |
| Conditional payment (IFRS 3.58) | 31.12.2020 | | | | |
| | | | | | |
| **Liabilities which fair value is subject to disclosure** | | | | | |
| **Interest-bearing credits and loans** | | | | | |
| Floating-rate-loan in PLN | 31.12.2020 | 941 | | 941 | |

In the period ended 31 December 2020, 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 | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Own | 5 323 | 5 707 |
| Used on the basis of a rental, lease or other contract, including lease contracts | 3 873 | 3 850 |
| **Total** | **9 196** | **9 557** |

**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 disposability | 31.12.2020 | 31.12.2019 |
|---|---|---|
| - used as security for own credits and loans | 6 350 | 6 519 |
| - used as security for third-party credits and loans | 0 | 0 |
| - used as security for other liabilities | 0 | 0 |
| - used under finance lease | 3 873 | 3 850 |
| **The carrying value of tangible fixed assets subject to restrictions on disposability or being a security for liabilities** | **10 223** | **10 369** |

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

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

## Changes in fixed assets (by category) - for the period 01.01.2020 - 31.12.2020

| | Lands | Buildings and structures | Machines and devices | Means of transport | Other fixed assets | Fixed assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **Gross balance sheet value as at 01.01.2020** | **520** | **6 996** | **880** | **4 648** | **341** | **79** | **13 464** |
| **Increases, due to:** | ***0*** | ***0*** | ***167*** | ***679*** | ***0*** | ***25*** | ***871*** |
| - acquisition of fixed assets | | | 30 | 16 | | 25 | 71 |
| - Own-account production of fixed assets | | | | | | | 0 |
| - business combinations | | | | | | | 0 |
| - lease agreements | | | 137 | 663 | | | 800 |
| - revaluation | | | | | | | 0 |
| - received contribution | | | | | | | 0 |
| - other | | | | | | | 0 |
| **Decreases, due to:** | ***0*** | ***0*** | ***0*** | ***551*** | ***0*** | ***79*** | ***630*** |
| - disposal | | | | 551 | | | 551 |
| - liquidation | | | | | | | 0 |
| - sale of a subsidiary undertaking | | | | | | | 0 |
| - revaluation | | | | | | | 0 |
| - contribution made | | | | | | | 0 |
| - other | | | | | | 79 | 79 |
| **Gross balance sheet value as at 31.12.2020** | **520** | **6 996** | **1 047** | **4 776** | **341** | **25** | **13 705** |
| **Redemption as at 01.01.2020** | **0** | **997** | **649** | **1 990** | **271** | **0** | **3 907** |
| **Increases, due to:** | ***0*** | ***170*** | ***96*** | ***819*** | ***24*** | ***0*** | ***1 109*** |
| - amortisation and depreciation | | 169 | 95 | 815 | 24 | | 1 103 |
| - revaluation | | | | | | | 0 |
| - other | | 1 | 1 | 4 | | | 6 |
| **Decreases, due to:** | ***0*** | ***1*** | ***1*** | ***504*** | ***1*** | ***0*** | ***507*** |
| - liquidation | | | | | | | 0 |
| - disposal | | | | 504 | | | 504 |
| - revaluation | | | | | | | 0 |
| - other | | 1 | 1 | | 1 | | 3 |
| **Redemption as at 31.12.2020** | **0** | **1 166** | **744** | **2 305** | **294** | **0** | **4 509** |
| **Impairments as at 01.01.2020** | **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 31.12.2020** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Net exchange differences on translation of the financial statement to the presentation currency | | | | | | | 0 |
| **Net balance sheet value as at 31.12.2020** | **520** | **5 830** | **303** | **2 471** | **47** | **25** | **9 196** |

(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** | **5 737** | **808** | **3 955** | **286** | **0** | **11 306** |
| **Increases, due to:** | ***0*** | ***1 536*** | ***73*** | ***1 275*** | ***55*** | ***619*** | ***3 558*** |
| - acquisition of fixed assets | | 395 | 73 | 632 | 55 | 619 | 1 774 |
| - Own-account production of fixed assets | | | | | | | 0 |
| - business combinations | | | | | | | 0 |
| - lease agreements | | | | 643 | | | 643 |
| - revaluation | | | | | | | 0 |
| - received contribution | | | | | | | 0 |
| - other | | 1 141 | | | | | 1 141 |
| **Decreases, due to:** | ***0*** | ***277*** | ***1*** | ***582*** | ***0*** | ***540*** | ***1 400*** |
| - disposal | | | | 582 | | | 582 |
| - liquidation | | | | | | | 0 |
| - sale of a subsidiary undertaking | | | | | | | 0 |
| - revaluation | | | | | | | 0 |
| - contribution made | | | | | | | 0 |
| - other | | 277 | 1 | | | 540 | 818 |
| **Gross balance sheet value as at 31.12.2019** | **520** | **6 996** | **880** | **4 648** | **341** | **79** | **13 464** |
| **Redemption as at 01.01.2019** | **0** | **830** | **585** | **1 874** | **251** | **0** | **3 540** |
| **Increases, due to:** | ***0*** | ***167*** | ***65*** | ***633*** | ***20*** | ***0*** | ***885*** |
| - amortisation and depreciation | | 167 | 65 | 631 | 19 | | 882 |
| - revaluation | | | | | | | 0 |
| - other | | | | 2 | 1 | | 3 |
| **Decreases, due to:** | ***0*** | ***0*** | ***1*** | ***517*** | ***0*** | ***0*** | ***518*** |
| - liquidation | | | | 24 | | | 24 |
| - disposal | | | | 493 | | | 493 |
| - revaluation | | | | | | | 0 |
| - other | | | 1 | | | | 1 |
| **Redemption as at 31.12.2019** | **0** | **997** | **649** | **1 990** | **271** | **0** | **3 907** |
| **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 |
| - liquidation or disposal | | | | | | | 0 |
| - other | | | | | | | 0 |
| **Impairments as at 31.12.2019** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Net exchange differences on translation of the financial statement to the presentation currency | | | | | | | 0 |
| **Net balance sheet value as at 31.12.2019** | **520** | **5 999** | **231** | **2 658** | **70** | **79** | **9 557** |

Fair value measurement of the Group's immovable property as at **31 December 2020** 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 2020** and in his opinion the market conditions have not changed since the above valuation.

**Fixed assets under construction**

| As at 01.01.2020 | Expenditures incurred in the financial year | Settlement of expenditures | | | | Impairments | As at 31.12.2020 |
|---|---|---|---|---|---|---|---|
| | | Buildings, premises and civil engineering facilities | Technical devices and machines | Means of transport | Other fixed assets | | |
| **79** | 25 | 0 | 79 | 0 | 0 | 0 | **25** |

| 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** |

**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 31.12.2020 | Value as at 31.12.2020 | Area of a parcel [m$^2$] as at 31.12.2020 | Value as at 31.12.2020 |
|---|---|---|---|---|---|---|
| 93-120 Łódź Przybyszewskiego 176/178 St. | - | 231/12<br>231/58<br>231/32 | 4 975 | 520 | 4 975 | 520 |
| **TOTAL** | | | **4 975** | **520** | **4 975** | **520** |

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

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

**Leased fixed assets**

| Fixed assets | 31.12.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Gross value | Redemption | Net value | Gross value | Redemption | Net value |
| Immovable property | 0 | 0 | 0 | 0 | 0 | 0 |
| Machines and devices | 192 | 75 | 117 | 54 | 32 | 22 |
| Means of transport | 2 336 | 709 | 1 627 | 1 981 | 497 | 1 484 |
| Other fixed assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Right-of-use assets | 2 559 | 430 | 2 129 | 2 559 | 215 | 2 344 |
| **Total** | **5 087** | **1 214** | **3 873** | **4 594** | **744** | **3 850** |

The carrying value of fixed assets, including machines and devices under financial lease agreements and lease agreements with a repurchase option as at 31 December 2020 is PLN 3,873 thousand (as at 31 December 2019: PLN 3,850 thousand).

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

***Note 14. INTANGIBLE ASSETS***

**Changes in intangible assets (by category) - for the period 01.01.2020-31.12.2020**

| | Development costs[1] | Trademarks[2] | Patents and licenses[2] | Software[2] | Other[2] | Intangible assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **Gross balance sheet value as at 01.01.2020** | **28 662** | **0** | **0** | **0** | **7 641** | **0** | **36 303** |
| **Increases, due to:** | ***9 085*** | ***0*** | ***0*** | ***0*** | ***107*** | ***0*** | ***9 192*** |
| - acquisition | 9 085 | 0 | | | 107 | | 9 192 |
| - acquisitions of business entities | | | | | | | 0 |
| - other | | | | | | | 0 |
| **Decreases, due to:** | ***5 364*** | ***0*** | ***0*** | ***0*** | ***52*** | ***0*** | ***5 416*** |
| - disposal | | | | | | | 0 |
| - liquidation | | | | | | | 0 |
| - revaluation | | | | | | | 0 |
| - other | 5 364 | 0 | | | 52 | | 5 416 |
| **Gross balance sheet value as at 31.12.2020** | **32 383** | **0** | **0** | **0** | **7 696** | **0** | **40 079** |
| **Redemption as at 01.01.2020** | **16 558** | **0** | **0** | **0** | **7 083** | **0** | **23 641** |
| **Increases, due to:** | ***2 851*** | ***0*** | ***0*** | ***0*** | ***546*** | ***0*** | ***3 397*** |
| - amortisation and depreciation | 2 851 | | | | 546 | | 3 397 |
| - revaluation | | | | | | | 0 |
| - other | | | | | | | 0 |
| **Decreases, due to:** | ***1*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***1*** |
| - liquidation | | | | | | | 0 |
| - disposal | | | | | | | 0 |
| - revaluation | | | | | | | 0 |
| - other | 1 | | | | | | 1 |
| **Redemption as at 31.12.2020** | **19 408** | **0** | **0** | **0** | **7 629** | **0** | **27 037** |
| **Impairments as at 01.01.2020** | **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 31.12.2020** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| - Net exchange differences on translation of the financial statement to the presentation currency | | | | | | | 0 |
| **Net balance sheet value as at 31.12.2020** | **12 975** | **0** | **0** | **0** | **67** | **0** | **13 042** |

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

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

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

| | Development costs[1] | Trademarks[2] | Patents and licenses[2] | Software[2] | Other[2] | Intangible assets under construction | Total |
|---|---|---|---|---|---|---|---|
| **Gross balance sheet value as at 01.01.2019** | **24 157** | **0** | **0** | **0** | **8 083** | **0** | **32 240** |
| **Increases, due to:** | ***7 653*** | ***0*** | ***0*** | ***0*** | ***1*** | ***0*** | ***7 654*** |
| - acquisition | 7 653 | 0 | | | 1 | | 7 654 |
| - acquisitions of business entities | | | | | | | 0 |
| - other | | | | | | | 0 |
| **Decreases, due to:** | ***3 148*** | ***0*** | ***0*** | ***0*** | ***443*** | ***0*** | ***3 591*** |
| - disposal | | | | | | | 0 |
| - liquidation | | | | | | | 0 |
| - revaluation | | | | | | | 0 |
| - other | 3 148 | 0 | | | 443 | | 3 591 |
| **Gross balance sheet value as at 31.12.2019** | **28 662** | **0** | **0** | **0** | **7 641** | **0** | **36 303** |
| **Redemption as at 01.01.2019** | **13 936** | **0** | **0** | **0** | **6 371** | **0** | **20 307** |
| **Increases, due to:** | ***3 098*** | ***0*** | ***0*** | ***0*** | ***1 189*** | ***0*** | ***4 287*** |
| - amortisation and depreciation | 2 477 | | | | 1 189 | | 3 666 |
| - revaluation | | | | | | | 0 |
| - other | 621 | | | | | | 621 |
| **Decreases, due to:** | ***476*** | ***0*** | ***0*** | ***0*** | ***477*** | ***0*** | ***953*** |
| - liquidation | | | | | | | 0 |
| - disposal | | | | | | | 0 |
| - revaluation | | | | | | | 0 |
| - other | 476 | | | | 477 | | 953 |
| **Redemption as at 31.12.2019** | **16 558** | **0** | **0** | **0** | **7 083** | **0** | **23 641** |
| **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 |
| - liquidation or disposal | | | | | | | 0 |
| - other | | | | | | | 0 |
| **Impairments as at 31.12.2019** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| - Net exchange differences on translation of the financial statement to the presentation currency | | | | | | | 0 |
| **Net balance sheet value as at 31.12.2019** | **12 104** | **0** | **0** | **0** | **558** | **0** | **12 662** |

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

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

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

The Group reviews annually the adopted periods of economic useful life on the basis of current estimates. In 2020, there were no significant changes in the depreciation rates applied by the Issuer. The manufacturing costs of an intangible asset are determined and capitalized in accordance with the accounting policy of the Group. The determination of the moment at which the capitalization of costs commences is subject to professional judgement of the management as to the possibility (technological and economic) of completing the project. This moment is determined by reaching a stage (milestone) of a project in which the Group has reasonable assurance that it is able to complete a given intangible asset so that it is suitable for use or sale and that future economic benefits achieved as a result of use or sale will exceed the manufacturing cost of a given intangible asset. Thus, while determining the value of costs that may be capitalized, the Management Board estimates the present value of future cash flows generated by a given intangible asset. Every year and as at each balance sheet date, as at which there is a relevant indication of impairment, intangible assets are subject to an impairment test. Such a test requires an estimation of the recoverable amount of a cash-generating unit and is usually performed using the discounted cash flow method, which involves the need to make estimates with respect to future cash flows, changes in working capital and the weighted average cost of capital.

In connection with the presentation of subsidies in assets, by deducting the amount of subsidies from the value of the component of assets financed with such subsidies in whole or in part, the value of development work was reduced in 2020 by PLN 1 261 thousand and in 2019 by PLN 986 thousand. In addition, in 2020 the Group 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 |
|---|---|---|
| POSitive Marketing - implementation of an innovative product from the Marketing Automation area with the aim of improving the competitiveness of LSI Software S.A. | 2 150 | 968 |
| **Total** | **2 150** | **968** |

### Ownership structure

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Own | 13 042 | 12 662 |
| Used under a rental, lease or other contract, including lease agreements | 0 | 0 |
| **Total** | **13 042** | **12 662** |

***Note 15. GOODWILL***

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| LSI Software s.r.o. | 8 | 8 |
| GiP Sp. z o.o. | 2 815 | 2 514 |
| Positive Software USA LLC | 0 | 0 |
| **Goodwill (net value)** | **2 823** | **2 522** |

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

### Changes in goodwill on consolidation

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Gross balance sheet value at the beginning of the period** | **2 522** | **2 522** |
| Increases, due to: | ***301*** | ***0*** |
| Acquisition of an entity | 301 | 0 |
| Adjustments resulting from subsequent recognition | 0 | 0 |
| **Decreases, due to:** | ***0*** | ***0*** |
| Sale of a subsidiary | ***0*** | ***0*** |
| Net exchange differences from translation of the financial statements into the presentation currency | 0 | 0 |
| **Gross balance sheet value at the end of the period** | **2 823** | **2 522** |
| | | |
| Impairment losses at the beginning of the period | **0** | **0** |
| Impairment losses recognized during the period | 0 | 0 |
| Other changes | 0 | 0 |
| Impairment losses at the end of the period | **0** | **0** |
| | | |
| **Net goodwill** | **2 823** | **2 522** |

### Goodwill acquired in a business combination

| | Date of acquisition | Percentage of acquired capital instruments with voting rights | Cost of a business combination | Fair value of the net assets of the acquired entity attributable to the acquirer | Goodwill acquired as part of a business combination | Excess of the acquirer's share in the fair value of net assets over the cost of the combination* |
|---|---|---|---|---|---|---|
| GiP Sp. z o.o. | 01.02.2017 | 100% | 4 954 | 1 950 | 2 815 | - |
| **TOTAL** | **X** | **X** | **4 954** | **1 950** | **2 815** | **0** |

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

Goodwill being the result of business combination and copyrights with an indefinite useful life have been allocated to the following cash generating units:
- unit A - goodwill on acquisition of GiP Sp. z o.o.

***Unit A***

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

### Key assumptions adopted for calculation of the value in use

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

- EBITDA margin;
- discount rates;
- increase of the remuneration level;

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

- market share during the budget period; and
- the growth rate used to estimate cash flows beyond the budget period.

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

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

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

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

**Sensitivity to changes in assumptions**

In the case of estimating the value in use of A unit, there is a possibility of reasonably justified changes to the adopted assumptions and these changes may result in the fact that carrying value of the unit exceeds its recoverable amount. The current recoverable value of A unit exceeds its carrying value by PLN 1,409 thousand.

***Note 16. INVESTMENT PROPERTY***

**Investment property measured at fair value**

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Gross balance sheet value at the beginning of the period** | **0** | **864** |
| Increases, due to: | ***0*** | ***0*** |
| net profit arising from remeasurement to fair value | 0 | 0 |
| **Decreases, due to:** | ***0*** | ***864*** |
| - reclassification from and to another asset category | 0 | 864 |
| **Gross balance sheet value at the end of the period** | **0** | **0** |

Fair value measurements of the Group's investment property as at **31 December 2020 and 31 December 2019** 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 2020** and in his opinion the market conditions have not changed since the above valuation. The table below presents the value of revenues and direct costs related to the rental of investment property executed in 2020 and 2019.

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Revenues from rental of investment property | 0 | 9 |
| Direct operating rental costs | 0 | 5 |
| **Profits (losses) from rental of investment property** | **0** | **4** |

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

Due to resignation on 10 March 2015 of former president of the Management Board of BluePocket S.A. and failure to appoint a new Management Board of this company, by the day of preparation of the report hereof, the Issuer did not receive financial statements of BluePocket S.A. for the years 2014 - 2020. At the same time, due to the fact that the meetings of the Supervisory Board are not attended by members appointed by Bastion Venture Fund sp. z o.o. S.K.A. as a Shareholder, LSI Software S.A. is not able to independently appoint the Management Board of BluePocket S.A. which results in the actual lack of the Issuer's ability to govern financial and operating policy of this entity.

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

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Shares/Participating interests in companies not listed on the stock exchange (non-consolidated) | 2 307 | 2 307 |
| Shares of companies listed on the stock exchange (non-consolidated) | 0 | 0 |
| Total | **2 307** | **2 307** |

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

### Investments in subordinate non-consolidated entities as at 31.12.2020

| Company business name, legal form, location of the head office | Value of shares according to acquisition price | Revaluation adjustments | Balance sheet value of shares | Percentage of shares held | Percentage of votes held | Reasons for non-consolidation |
|---|---|---|---|---|---|---|
| BluePocket S.A. – Rzeszów, Poland | 2 307 | 2 307 | 0 | 50% | 50% | Loss of control |
| **Total** | **2 307** | **2 307** | **0** | | | |

| Equity | Share capital | Other capital | Net profit/loss | Assets' value | Fixed assets | Current assets | Liabilities | Revenues |
|---|---|---|---|---|---|---|---|---|
| No data | 220 | No data | No data | No data | No data | No data | No data | No data |

### Investments in subordinate non-consolidated entities as at 31.12.2019

| Company business name, legal form, location of the head office | Value of shares according to acquisition price | Revaluation adjustments | Balance sheet value of shares | Percentage of shares held | Percentage of votes held | Reasons for non-consolidation |
|---|---|---|---|---|---|---|
| BluePocket S.A. – Rzeszów, Poland | 2 307 | 2 307 | 0 | 50% | 50% | Loss of control |
| **Total** | **2 307** | **2 307** | **0** | | | |

| Equity | Share capital | Other capital | Net profit/loss | Assets' value | Fixed assets | Current assets | Liabilities | Revenues |
|---|---|---|---|---|---|---|---|---|
| No data | 220 | No data | No data | No data | No data | No data | No data | No data |

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

***Note 19. OTHER FIXED ASSETS***

In the years 2019-2020 the item was not recognized.

***Note 20. FINANCIAL ASSETS AVAILABLE FOR SALE***

In the years 2019 - 2020 the Group's companies had no financial assets classified as held for sale.

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

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

***Note 22. OTHER FINANCIAL ASSETS***

At the end of 2019 and 2020, the item was not recognized.

**Change in financial instruments**

| 01.01– 31.12.2020 | 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** | **0** | **0** | **0** |
| ***Increases*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| Loans granted | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest accrued at the effective interest rate | 0 | 0 | 0 | 0 | 0 | 0 |
| ***Decreases*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| Repayment of loans granted | 0 | 0 | 0 | 0 | 0 | 0 |
| **Closing balance** | **0** | **0** | **0** | **0** | **0** | **0** |
| **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*** |
| Loans granted | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest accrued at the effective interest rate | 0 | 0 | 0 | 2 | 0 | 0 |
| ***Decreases*** | ***0*** | ***0*** | ***0*** | ***237*** | ***0*** | ***0*** |
| Repayment of loans granted | 0 | 0 | 0 | 237 | 0 | 0 |
| **Closing balance** | **0** | **0** | **0** | **0** | **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 31.12.2020** | | | | **0** |
| **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 |

### Result on cash flow hedges recognized directly in comprehensive income

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Accumulated result on cash flow hedges at the beginning of the period** | **-21** | **-6** |
| 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 | 21 | -15 |
| Amount transferred from comprehensive income to the profit and loss account during the financial period | 0 | 0 |
| **Result on cash flow hedges accumulated in the comprehensive income at the end of the period** | **0** | **-21** |

***Note 23. INVENTORY***

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

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Goods | 3 460 | 5 106 |
| **Gross inventory** | **3 460** | **5 106** |
| Impairment loss | 247 | 247 |
| **Net inventory, including:** | **3 213** | **4 859** |
| - the carrying amount of inventories recognized in the fair value less selling costs | 0 | 0 |
| - the carrying amount of inventories pledged as collateral | 0 | 0 |

### Inventory in the period 01.01. – 31.12.2020

| | 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 | 144 | **144** |
| Impairment loss on inventory recognized as an expense in the period | 0 | 0 | 0 | 0 | **0** |
| Impairment loss on inventory reversed during the period | 0 | 0 | 0 | 0 | **0** |

**Inventory aging analyses in the period 01.01. – 31.12.2020**

| | Overdue payments in days | | | | Total |
|---|---|---|---|---|---|
| | 0-90 | 91-180 | 181-360 | >360 | |
| Goods (gross) | 1 056 | 648 | 829 | 927 | **3 460** |
| Goods (impairment) | 0 | 0 | 0 | 247 | **247** |
| Goods (net) | **1 056** | **648** | **829** | **680** | **3 213** |

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

**Change in impairment losses on inventory**

| | Materials | Semi-finished products and production in progress | Finished products | Goods | Impairment losses -Total |
|---|---|---|---|---|---|
| **As at 01.01.2020** | **0** | **0** | **0** | **247** | **247** |
| ***Increases, including:*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| - recognition of impairment loss in correspondence with other operating costs | 0 | 0 | 0 | 0 | 0 |
| ***Decreases, including:*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| - release of impairment loss provisions in correspondence with other operating income | 0 | 0 | 0 | 0 | 0 |
| **As at 31.12.2020** | **0** | **0** | **0** | **247** | **247** |
| **As at 01.01.2019** | **0** | **0** | **0** | **247** | **247** |
| ***Increases, including:*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| - other | 0 | 0 | 0 | 0 | 0 |
| ***Decreases, including:*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |
| - release of impairment loss provisions in correspondence with other operating income | 0 | 0 | 0 | 0 | 0 |
| **As at 31.12.2019** | **0** | **0** | **0** | **247** | **247** |

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

***Note 24. CONTRACT FOR CONSTRUCTION SERVICES***

Item was not recognized.

***Note 25. TRADE RECEIVABLES***

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Trade receivables** | **6 476** | **14 685** |
| - from associates | 0 | 0 |
| - from other undertakings | 6 476 | 14 685 |
| Impairment | 663 | 1 334 |
| **Gross trade receivables** | **7 139** | **16 019** |

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

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

## Change in impairment loss on trade receivables

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Associates** | | |
| Impairment loss on trade receivables at the beginning of the period | **68** | **68** |
| **Increases, including:** | ***0*** | ***0*** |
| - on past due and disputable receivables | 0 | 0 |
| Decreases, including: | ***0*** | ***0*** |
| - use | 0 | 0 |
| **Impairment loss on trade receivables at the end of the period** | **68** | **68** |
| **Other undertakings** | | |
| **Impairment loss on trade receivables at the beginning of the period** | **1 266** | **1 892** |
| **Increases, including:** | ***917*** | ***280*** |
| - on past due and disputable receivables | 917 | 280 |
| - acquisition of a subsidiary | 0 | 0 |
| **Decreases, including:** | ***1 588*** | ***906*** |
| - use | 0 | 250 |
| - release of impairment loss in connection with the repayment of receivables | 1 588 | 656 |
| **Impairment loss on trade receivables from other undertakings at the end of the period** | **595** | **1 266** |
| | | |
| **Impairment loss on trade receivables at the end of the period** | **663** | **1 334** |

## Trade receivables claimed at court

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Trade receivables claimed at court** | **663** | **1 334** |
| Impairment loss on disputable receivables | 663 | 1 334 |
| **Net amount of trade receivables claimed at court** | **0** | **0** |

### *Note 26. OTHER RECEIVABLES*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Other receivables, including:** | **752** | **930** |
| - taxes, with the exception of corporate income tax | 67 | 2 |
| - other | 685 | 928 |
| Impairment losses on other receivables | 0 | 0 |
| **Other receivables - gross** | **752** | **930** |

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Other receivables, including:** | **752** | **930** |
| From associates | 0 | 0 |
| From other undertakings | 752 | 930 |
| Impairment | 0 | 0 |
| **Other receivables - gross** | **752** | **930** |

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

***Note 27. PREPAYMENTS AND ACCRUED***

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| - Property (non-life) insurance and Subscription of newspapers | 123 | 150 |
| - ongoing projects | 0 | 72 |
| - advance invoices | 448 | 182 |
| - other prepayments | 10 | 3 |
| **Prepayments and accrued income** | **581** | **407** |

***Note 28. CASH AND CASH EQUIVALENTS***

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Cash on hand and in bank accounts:** | **13 196** | **2 039** |
| on hand | 196 | 198 |
| in bank accounts | 13 000 | 1 841 |
| **Cash equivalents** | **0** | **3 160** |
| Cash in transit | 0 | 0 |
| Overnight deposits | 0 | 3 160 |
| **Other cash assets:** | **0** | **0** |
| **Cash on hand and in bank accounts attributed to discontinued operations** | **0** | **0** |
| **Total** | **13 196** | **5 199** |

Cash in bank accounts is subject to variable interest rates, which depend on the interest rate on one-day bank deposits. Short-term deposits are made for different periods, from one day to one month, depending on the Group's current cash requirements and bear the relevant interest. The fair value of cash and cash equivalents as at 31 December 2020 amounts to PLN 13,196 thousand (31 December 2019: PLN 5,199 thousand).

| Restricted cash and cash equivalents | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Performance bond | 86 | 0 |
| **Total** | **86** | **0** |

As at 31 December 2020, the Group had unused credit facilities in the amount of PLN 2,000 thousand (31 December 2019: PLN 2,000 thousand), in relation to which all the conditions precedent have been met.

| Cash at disposal of the entity not recognised in the balance sheet | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Social benefits fund | 55 | 25 |
| Available, unused cash under revolving credit | 2 000 | 2 000 |
| **TOTAL** | **2 055** | **2 025** |

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

## *Note 29. SHARE CAPITAL*

### Share capital – structure

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

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

### Share capital – structure as at 31 December 2020 (continuation)

| Shareholder | Number of shares | % share capital | Number of votes | % votes |
|---|---|---|---|---|
| SG Invest Sp. z o.o. / Grzegorz Siewiera | 1 000 000 | 30,67% | 2 600 000 | 53,49% |
| Inmuebles Polo SL | 431 527 | 13,23% | 431 527 | 8,88% |
| Yavin Limited / Piotr | 404 136 | 12,39% | 404 136 | 8,31% |
| Rockbridge Towarzystwo Funduszy Inwestycyjnych S.A. | 286 395 | 8,78% | 286 395 | 5,89% |
| Other Shareholders | 1 088 219 | 33,37% | 1 088 219 | 22,39% |
| LSI Software S.A. – own (treasury) shares | 50 485 | 1,55% | 50 485 | 1,04% |
| **Total** | **3 260 762** | **100,00%** | **4 860 762** | **100,00%** |

### Change in share capital

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Share capital at the beginning of the period** | **3 261** | **3 261** |
| Increases, due to: | ***0*** | ***0*** |
| Decreases, due to: | ***0*** | ***0*** |
| - hyperinflation | | |
| **Share capital at the end of the period** | **3 261** | **3 261** |

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

### *Note 30. SHARE PREMIUM*

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

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.

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

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 Group is currently connected with a requirement to maintain a certain level of equity.

***Note 31. OTHER RESERVES***

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

- the total number of shares acquired by the Company within the Share Buyback Program amounts to 50,485 and corresponds to 50,485 votes at the General Meeting of the Company;
- the total number of shares acquired so far accounts for 1.55% of the Company's share capital and the total number of votes at the Company's General Meeting;
- the nominal value of one share is PLN 1, and the total nominal value of the acquired shares amounts to PLN 50,485;
- the average unit acquisition price of the shares was PLN 11.99;
- PLN 1,452,559.86 remained from the special-purpose fund in the amount of PLN 2,060,000;
- the Company's own shares acquired by the Company may be used:

a) for redemption of shares and reduction of the Company's share capital

b) to offer shares to members of the Company's Management Board and key managers and employees of the Company (the “Incentive Scheme”).

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.

### Other reserves

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Statutory capital reserve (supplementary capital) | 8 150 | 8 150 |
| Revaluation reserve | 0 | 0 |
| Remaining supplementary capital | 2 060 | 2 060 |
| Own shares (-) | -609 | -609 |
| **TOTAL** | **9 601** | **9 601** |

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

### Change in other reserves

| | Supplementary capital | Revaluation reserve | Reserve capital | Own shares | Total |
|---|---|---|---|---|---|
| **As at 01.01.2020** | **8 150** | **0** | **2 060** | **-609** | **9 601** |
| ***Increases in the period:*** | ***0*** | ***0*** | ***0*** | ***0*** | **0** |
| Valuation of financial assets available for sale | 0 | 0 | 0 | 0 | 0 |
| Deferred tax on the above adjustments | 0 | 0 | 0 | 0 | 0 |
| Net cash flow hedges | 0 | 0 | 0 | 0 | 0 |
| Deferred tax on the above adjustments | 0 | 0 | 0 | 0 | 0 |
| Distribution/coverage of net profit/loss | 0 | 0 | 0 | 0 | 0 |
| Equity component of an incentive program for employees | 0 | 0 | 0 | 0 | 0 |
| ***Decreases in the period:*** | ***0*** | ***0*** | ***0*** | ***0*** | **0** |
| Valuation of financial assets available for sale | 0 | 0 | 0 | 0 | 0 |
| Deferred tax on the above adjustments | 0 | 0 | 0 | 0 | 0 |
| Business combination | 0 | 0 | 0 | 0 | 0 |
| Deferred tax on the above adjustments | 0 | 0 | 0 | 0 | 0 |
| Distribution/coverage of net profit/loss | ***0*** | ***0*** | ***0*** | ***0*** | **0** |
| Equity component of an incentive program for employees | 0 | 0 | 0 | 0 | 0 |
| **As at 31.12.2020** | **8 150** | **0** | **2 060** | **-609** | **9 601** |
| **As at 01.01.2019** | **8 150** | **0** | **2 060** | **-609** | **9 601** |
| ***Increases in the period:*** | ***0*** | ***0*** | ***0*** | ***0*** | **0** |
| Valuation of financial assets available for sale | 0 | 0 | 0 | 0 | 0 |
| Deferred tax on the above adjustments | 0 | 0 | 0 | 0 | 0 |
| Net cash flow hedges | 0 | 0 | 0 | 0 | 0 |
| Deferred tax on the above adjustments | 0 | 0 | 0 | 0 | 0 |
| Distribution/coverage of net profit/loss | 0 | 0 | 0 | 0 | 0 |
| Equity component of an incentive program for employees | 0 | 0 | 0 | 0 | 0 |
| ***Decreases in the period:*** | ***0*** | ***0*** | ***0*** | ***0*** | **0** |
| Valuation of financial assets available for sale | 0 | 0 | 0 | 0 | 0 |
| Deferred tax on the above adjustments | 0 | 0 | 0 | 0 | 0 |
| Business combination | 0 | 0 | 0 | 0 | 0 |
| Deferred tax on the above adjustments | 0 | 0 | 0 | 0 | 0 |
| Distribution/coverage of net profit/loss | ***0*** | ***0*** | ***0*** | ***0*** | **0** |
| Equity component of an incentive program for employees | 0 | 0 | 0 | 0 | 0 |
| **As at 31.12.2019** | **8 150** | **0** | **2 060** | **-609** | **9 601** |

***Note 32. RETAINED EARNINGS***

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

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Amounts recognized in retained earnings not subject to payment in the form of a dividend: | 24 584 | 18 388 |
| retained earnings | 24 584 | 18 388 |
| **TOTAL** | **24 584** | **18 388** |

***Note 33. EQUITY ATTRIBUTABLE TO NON-CONTROLLING SHAREHOLDERS***

Item was not recognized.

*Note 34. BANK AND NON-BANK LOANS*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Overdrafts | 0 | 0 |
| Credit facilities | 941 | 1 392 |
| **Total of bank and non-bank loans, including:** | **941** | **1 392** |
| - long-term | 339 | 790 |
| - short-term | 602 | 602 |

## Maturity structure of bank and non-bank loans

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Short-term credit facilities and loans | 602 | 602 |
| Long-term credit facilities and loans | 339 | 790 |
| - payable within 1 year – 3 years | 339 | 781 |
| - payable within 3 years – 5 years | 0 | 9 |
| - payable within more than 5 years | 0 | 0 |
| **Bank and non-bank loans, total** | **941** | **1 392** |

## Bank and non-bank loans – as at 31.12.2020

| Name of a bank / a lender and type of a loan / a credit facility | Amount of a credit/loan acc. to agreement (PLN thousand) | Outstanding amount (PLN thousand) | Effective interest rate % | Repayment date | Collateral |
|---|---|---|---|---|---|
| mBank S.A. - overdraft | 2 000 | 0 | Wibor + bank's margin | 26.09.2021 | Contractual joint mortgage on immovable property |
| mBank S.A. – investment facility | 1 750 | 467 | Wibor + bank's margin | 31.01.2022 | Contractual joint mortgage on immovable property |
| mBank S.A. – investment facility | 575 | 268 | Wibor + bank's margin | 31.01.2023 | Contractual joint mortgage on immovable property |
| mBank S.A. working capital facility | 400 | 206 | Wibor + bank's margin | 31.03.2022 | promissory note |
| TOTAL | **4 725** | **941** | | | |

## Bank and non-bank 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 (PLN thousand) | Outstanding amount (PLN thousand) | Effective interest rate % | Repayment date | Collateral |
|---|---|---|---|---|---|
| mBank S.A. - overdraft | 2 000 | 0 | Wibor + bank's margin | 26.09.2020 | 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 | **4 725** | **1 392** | | | |

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

## Currency structure of bank and non-bank loans

| | 31.12.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| | Value in currency | Value in PLN | Value in currency | Value in PLN |
| PLN | 941 | 941 | 1 392 | 1 392 |
| EUR | 0 | 0 | 0 | 0 |
| USD | 0 | 0 | 0 | 0 |
| **Bank and non-bank loans, total** | **X** | **941** | **X** | **1 392** |

*Note 35. OTHER FINANCIAL LIABILITIES*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Lease liabilities | 3 000 | 3 411 |
| Liabilities arising from the acquisition of shares | 0 | 0 |
| Cash flow hedges | 0 | 21 |
| Other | 0 | 0 |
| **Total financial liabilities** | **3 300** | **3 432** |
| - long-term | 2 433 | 2 695 |
| - short-term | 867 | 737 |

## Lease liabilities

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Short-term lease liabilities | 867 | 716 |
| Long-term lease liabilities, including: | 2 433 | 2 695 |
| - 1 year – 5 years | 2 433 | 2 695 |
| - over 5 years | 0 | 0 |
| **Lease liabilities, total** | **3 300** | **3 411** |

## Cash flow hedges

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Fair value – opening balance** | **21** | **6** |
| Acquisition, recognition, commitment | 0 | 21 |
| Disposal, dissolution, repayment | 21 | 6 |
| **Fair value – closing balance** | **0** | **21** |
| - long-term | 0 | 0 |
| - short-term | 0 | 21 |

| Type of transaction | Date of transaction | Duration of transaction | Basic amount | Fair value |
|---|---|---|---|---|
| **As at 31.12.2020** | | | | **0** |
| **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 |

## Result on cash flow hedges recognized directly in comprehensive income

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Accumulated result on cash flow hedges – opening balance** | **-21** | **-6** |
| 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 | 21 | -15 |
| 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** | **0** | **-21** |

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

***Note 36. OTHER LONG-TERM LIABILITIES***

The item was not recognized.

***Note 37. TRADE LIABILITIES***

### Trade Liabilities

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **Trade Liabilities** | **2 816** | **8 636** |
| To associates | 0 | 0 |
| To other undertakings | 2 816 | 8 636 |

### Trade liabilities – past-due structure

| | Total | Not past-due | Past-due, but recoverable | | | |
|---|---|---|---|---|---|---|
| | | | < 90 days | 91 – 180 days | 181 – 360 days | >360 days |
| **31.12.2020** | **2 816** | **2 555** | **206** | **29** | **-14** | **33** |
| To associates | 0 | 0 | 0 | 0 | 0 | 0 |
| To other undertakings | 2 816 | 2 555 | 206 | 29 | -14 | 33 |
| **31.12.2019** | **8 636** | **4 769** | **2 736** | **33** | **2** | **1 096** |
| To associates | 0 | 0 | 0 | 0 | 0 | 0 |
| To other undertakings | 8 636 | 4 769 | 2 736 | 33 | 2 | 1 096 |

***Note 38. OTHER LIABILITIES***

### Other short-term liabilities

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Liabilities due to other taxes, duties, social insurance and other, except corporate income tax | 1 559 | 1 608 |
| Other liabilities | **4 067** | **645** |
| - liabilities to employees on account of remunerations | 633 | 602 |
| - subsidy under Shield 1.0 from PFR S.A. (Polish Development Fund) | 3 257 | 0 |
| - other liabilities | 177 | 43 |
| **Other liabilities, total** | **5 626** | **2 253** |

### Other short-term liabilities – past-due structure

| | Total | Not past-due | Past-due, but recoverable | | | |
|---|---|---|---|---|---|---|
| | | | 61 – 90 days | 91 – 180 days | 181 – 360 days | >360 days |
| **31.12.2020** | **5 626** | **5 626** | **0** | **0** | **0** | **0** |
| To associates | 0 | 0 | 0 | 0 | 0 | 0 |
| To other undertakings | 5 626 | 5 626 | 0 | 0 | 0 | 0 |
| **31.12.2019** | **2 253** | **2 253** | **0** | **0** | **0** | **0** |
| To associates | 0 | 0 | 0 | 0 | 0 | 0 |
| To other undertakings | 2 253 | 2 253 | 0 | 0 | 0 | 0 |

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

The Act of 4 March 1994 on the Company's Social Benefits Fund, as amended, states that the Social Benefits Fund is created by employers employing more than 20 full-time employees. The Group has such a fund and makes periodic write-offs in the amount of basic deductions / amounts agreed with the trade unions. Furthermore, the Fund holds the fixed assets. The purpose of the Fund is to subsidize the Group's social activities, loans granted to its employees and other social costs.

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

The Group has offset the Fund's assets with its liabilities to the Fund as these assets are not the Group's separate assets.

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

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Fixed assets contributed to the Fund | 0 | 0 |
| Loans granted to employees | 0 | 0 |
| Cash | 58 | 61 |
| Liabilities arising from the Fund | 20 | 39 |
| **Balance after offsetting** | **38** | **22** |
| **Allowances for the Fund during the accounting period** | **47** | **49** |

### *Note 40. CONTINGENT LIABILITIES*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Loan repayment guarantee | 500 | 500 |
| Liabilities due to bank guarantees granted mainly as security for the performance of business contracts | 1 792 | 2 089 |
| **Contingent liabilities, total** | **2 292** | **2 589** |

The Issuer has again granted a surety of up to PLN 500 thousand for the renewed overdraft facility agreement concluded 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 375 thousand valid until 31 December 2021
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 Group as at 31 December 2020 amounts to PLN 2,292 thousand.

**Contingent liabilities arising on guarantees and sureties granted**

| | Guarantee/surety granted to: | On account of | Currency | 31.12.2020 | 31.12.2019 |
|---|---|---|---|---|---|
| Surety for overdraft facility | GiP Sp. z o.o. | Credit facility | PLN | 500 | 500 |
| Performance bond | POSIFLEX TECHNOLOGY INC | Guarantee | USD | 375 | 450 |
| Guarantee of payment of liabilities under a lease agreement | AmRest Sp. z o.o. | Guarantee | PLN | 120 | 120 |
| Bank guarantee | CaixaBank S.A. | Guarantee | EUR | 57 | 57 |
| Performance of contractual guarantee obligations | PRO-BUD S.A. | Guarantee | PLN | 0 | 17 |
| | | | **Total** | **1 052** | **1 144** |

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

As at 31 December 2020 and 31 December 2019, future minimum lease payments under these agreements and the net current value of the minimum lease payments are as follows:

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

### Liabilities under finance leases and hire purchase contracts

| | 31.12.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| | Minimum payments | Present value of the payments | Minimum payments | Present value of the payments |
| In the period of 1 year | 867 | 867 | 716 | 716 |
| In the period of 1 year to 5 years | 2 433 | 2 433 | 2 695 | 2 695 |
| Over 5 years | 0 | 0 | 0 | 0 |
| **Total minimum lease payments** | **3 300** | **3 300** | **3 411** | **3 411** |
| Future interest expense | 2 273 | **X** | 2 325 | **X** |
| **Present value of minimum lease payments, including:** | **1 027** | **3 300** | **1 086** | **3 411** |
| - short-term | | 867 | | 716 |
| - long-term | | 2 433 | | 2 695 |

### Leased assets as at 31.12.2020

| | For asset classes | | | | TOTAL |
|---|---|---|---|---|---|
| | Land, buildings and structures | Machinery and equipment | Means of transport | Other fixed assets | |
| Means of transport | 0 | 0 | 1 627 | 0 | 1 627 |
| Other fixed assets | 0 | 0 | 0 | 0 | 0 |
| Machinery and equipment | 0 | 117 | 0 | 0 | 117 |
| Right-of-use assets | 2 129 | 0 | 0 | 0 | 2 129 |
| **Net carrying amount of leased assets** | **2 129** | **117** | **1 627** | **0** | **3 873** |

### *Note 42. PREPAYMENTS AND DEFERRED INCOME*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| ***Subsidies*** | **0** | **6** |
| ***Deferred income*** | **304** | **185** |
| Advance invoices | 285 | 185 |
| Other | 19 | 0 |
| **Prepayments and deferred income, including:** | **304** | **191** |
| - long-term | **0** | **0** |
| - short-term | **304** | **191** |

### *Note 43. PROVISION FOR RETIREMENT AND SIMILAR BENEFITS*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Provisions for retirement and disability benefits | 4 | 3 |
| **Total, including:** | **4** | **3** |
| - long-term | 2 | 1 |
| - short-term | 2 | 2 |

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

(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 01.01.2020** | **3** | **0** | **0** |
| Recognition | 1 | 0 | 0 |
| Costs of benefits paid | 0 | 0 | 0 |
| Release | 0 | 0 | 0 |
| **As at 31.12.2020, including:** | **4** | **0** | **0** |
| - long-term | 2 | 0 | 0 |
| - short-term | 2 | 0 | 0 |
| **As at 01.01.2019** | **2** | **0** | **0** |
| Recognition | 1 | 0 | 0 |
| Costs of benefits paid | 0 | 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 |

## *Note 44. OTHER PROVISIONS*

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Provision for annual leaves | 116 | 88 |
| Restructuring reserve | 0 | 0 |
| Provision for costs of court proceedings | 32 | 32 |
| Total, including: | **148** | **120** |
| - long-term | 0 | 0 |
| - short-term | 148 | 120 |

### Change in provisions

| | Provision for annual leaves | Restructuring provision | Other provisions | Total |
|---|---|---|---|---|
| **As at 01.01.2020** | **88** | **0** | **32** | **120** |
| Recognition | 116 | 0 | 0 | 116 |
| Use | 0 | 0 | 0 | 0 |
| Release | 88 | 0 | 0 | 88 |
| **As at 31.12.2020, including:** | **116** | **0** | **32** | **148** |
| - long-term | 0 | 0 | 0 | 0 |
| - short-term | 116 | 0 | 32 | 148 |
| **As at 01.01.2019** | **87** | **0** | **32** | **119** |
| Recognition | 88 | 0 | 0 | 88 |
| Use | 0 | 0 | 0 | 0 |
| Release | 87 | 0 | 0 | 87 |
| **As at 31.12.2019, including:** | **88** | **0** | **32** | **120** |
| - long-term | 0 | 0 | 0 | 0 |
| - short-term | 88 | 0 | 32 | 120 |

## *Note 45. OBJECTIVES AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT*

Apart from derivative instruments, the main financial instruments used by the Company are bank loans, finance lease and hire-purchase agreements, cash and short-term deposits. The main purpose of these financial instruments is to ensure funding for the Company's operations. The Company also holds other financial instruments, such as trade receivables and payables arising directly in connection with business operations.

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

The Company also concludes derivative transactions, mainly forward foreign exchange contracts.

The purpose of these transactions is to manage the currency risk arising from the Company's operations and from its sources of financing. The policy applied by the Company at present and throughout the period covered by the audit is not trading in financial instruments except for investing the cash surplus in bonds with a short maturity date and higher interest rates than standard bank deposits. The main risks arising from the Company's financial instruments include interest rate risk, liquidity risk, currency risk and credit risk. The Management Board reviews and agrees principles for managing each of these risks - these principles are briefly discussed below. The Group also monitors the market price risk arising from all financial instruments held.

### Exposure to market risk

| Financial assets and liabilities 31.12.2020 | 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 | 4 241 |
| Hedging instruments - liabilities | 0 | 0 | 0 |

| 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 | 4 824 |
| Hedging instruments - liabilities | 0 | 267 | 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 130 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 13 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 |
|---|---|---|---|---|
| | 31.12.2020 + 10%/- 10% | | 31.12.2019 + 10%/- 10% | |
| Assets measured at amortized cost, including: | | | | |
| - loans granted | 0 | 0 | 0 | 0 |
| - trade and other receivables | +/- 65 | 0 | +/- 147 | 0 |
| Assets measured at amortized cost, including: | | | | |
| - credit and loans received | +/- 12 | 0 | +/- 14 | 0 |
| - trade and other liabilities | +/- 28 | 0 | +/- 86 | 0 |
| - other | 0 | 0 | 0 | 0 |

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

**Foreign exchange risk**

The Company is exposed to foreign exchange risk arising from concluded transactions. This risk arises as a result of the operating entity making sales or purchases in currencies other than its functional currency.

About 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 2020, the Company hedged 0% of purchase transactions in foreign currencies (as at 31 December 2019 - 100%), in respect of which, as at the balance sheet date, there were firm commitments reaching the end of the first quarter of 2021. 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 2020 | Impact on gross financial result | Impact on equity | Impact on gross financial result | Impact on equity |
|---|---|---|---|---|
| | EUR + 10%/- 10% | | USD + 10%/- 10% | |
| Financial liabilities measured at fair value through profit or loss | 0 | 0 | 0 | 0 |
| Hedging instruments - liabilities | 0 | 0 | 0 | 0 |

| 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% | |
| Financial liabilities measured at fair value through profit or loss | 0 | 0 | 0 | 0 |
| Hedging instruments - liabilities | 0 | 0 | +/- 101 | 0 |

**Commodity price risk**

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

**Credit risk**

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

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

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

In addition, due to ongoing monitoring of receivables, the exposure of the Group to the risk of bad debts is limited.

**Past-due trade receivables**

| | Total | Not past-due | Past-due (in days) | | | |
|---|---|---|---|---|---|---|
| | | | < 90 days | 91 –180 days | 181 – 360 days | >360 days |
| **31.12.2020** | | | | | | |
| Trade and other receivables | 7 139 | 3 155 | 1 748 | 311 | 174 | 1 751 |
| Impairment loss | 663 | 0 | 0 | 0 | 0 | 663 |
| Other receivables | 752 | 752 | 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 | 13 196 | 13 196 | 0 | 0 | 0 | 0 |
| Derivatives | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairment loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial assets | 0 | 0 | 0 | 0 | 0 | 0 |
| **31.12.2019** | | | | | | |
| Trade and other receivables | 16 019 | 10 559 | 2 327 | 433 | 546 | 2 154 |
| Impairment loss | 1 334 | 0 | 0 | 0 | 0 | 1 334 |
| Other receivables | 930 | 930 | 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 | 5 199 | 5 199 | 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 |

With regard to other financial assets of the Group, such as cash and cash equivalents, available-for-sale financial assets and certain derivatives, the Issuer's credit risk arises as a result of the inability of the other party to repay the amounts due while the maximum exposure to that risk is disclosed in Note 46. There are no significant concentrations of credit risk in the Group.

**Risk associated with liquidity**

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

The table below shows the Company's financial liabilities as at 31 December 2020 and as at 31 December 2019 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 Group which 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 | Over 3 months | From 3 to 12 months | From 1 year to 5 years | Over 5 years |
|---|---|---|---|---|---|
| **31.12.2020** | **0** | **5 552** | **1 102** | **6 029** | **0** |
| Interest-bearing loans | 0 | 150 | 452 | 339 | 0 |
| Lease agreements | 0 | 217 | 650 | 2 433 | 0 |
| Trade and other liabilities | 0 | 5 185 | 0 | 3 257 | 0 |
| - from associates | 0 | 0 | 0 | 0 | 0 |
| Derivatives | 0 | 0 | 0 | 0 | 0 |
| **31.12.2019** | **0** | **11 218** | **989** | **3 485** | **0** |
| Interest-bearing loans | 0 | 150 | 452 | 790 | 0 |
| Lease agreements | 0 | 179 | 537 | 2 695 | 0 |
| Trade and other liabilities | 0 | 10 889 | 0 | 0 | 0 |
| - from associates | 0 | 0 | 0 | 0 | 0 |
| Derivatives | 0 | 0 | 0 | 0 | 0 |

## *Note 46. INFORMATION ON FINANCIAL INSTRUMENTS*

### The fair value of certain classes of financial instruments

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

**(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 |
|---|---|---|---|---|---|---|
| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 | | |
| **Financial assets available for sale (long-term), including:** | **0** | **0** | **0** | **0** | **0** | |
| - bonds | 0 | 0 | 0 | 0 | 0 | |
| Other financial assets (long-term), including: | **0** | **0** | **0** | **0** | **0** | |
| - loans granted | 0 | 0 | 0 | 0 | 0 | Loans |
| **Trade and other receivables** | 7 796 | 15 634 | 7 796 | 15 634 | 780 | Receivables |
| **Financial assets available for sale (short-term), including:** | 0 | 0 | 0 | 0 | 0 | |
| **Financial assets at fair value through profit or loss, including:** | **0** | **0** | **0** | **0** | **0** | |
| - Derivative financial instruments | 0 | 0 | 0 | 0 | 0 | |
| Derivatives used in hedge accounting: | 0 | 0 | 0 | 0 | 0 | |
| **Other financial assets (short-term), including:** | **0** | **0** | **0** | **0** | **0** | |
| - loans granted | 0 | 0 | 0 | 0 | 0 | Loans |
| **Cash and cash equivalents, including:** | **13 196** | **5 199** | **13 196** | **5 199** | **0** | |
| - cash | 13 196 | 5 199 | 13 196 | 5 199 | 0 | Cash and cash equivalents |

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

| FINANCIAL LIABILITIES | Carrying amount | | Fair value | | Category of financial instrument |
|---|---|---|---|---|---|
| | 31.12.2020 | 31.12.2019 | 31.12.2020 | 31.12.2019 | |
| Interest-bearing credits and loans, including: | **941** | **1 392** | **941** | **1 392** | |
| - long-term, at floating interest rate | 339 | 790 | 339 | 790 | Credit facility |
| - long-term, at fixed interest rate | 0 | 0 | 0 | 0 | |
| - overdraft facility | 0 | 0 | 0 | 0 | Credit facility |
| - other – short-term | 602 | 602 | 602 | 602 | Credit facility |
| Other liabilities (long-term), including: | **2 433** | **2 695** | **2 433** | **2 695** | |
| - arising on financial lease agreements hire-purchase agreements | 2 433 | 2 695 | 2 433 | 2 695 | Lease |
| Trade and other liabilities | **8 442** | **10 956** | **8 442** | **10 956** | Other liabilities |
| Financial liabilities, including: | **0** | **21** | **0** | **21** | |
| - other financial liabilities at fair value through profit or loss | 0 | 21 | 0 | 21 | Forward contract |

Group’s companies have no liability items that would be recognized at fair value and therefore it is not necessary to disclose the assumptions for its determination. In the period ended 31.12.2020 there were no transfers between Levels 1 and 2 of the fair value hierarchy and their detailed description is included in note 12.

**Hedges**

The Group does not apply hedge accounting except for foreign exchange forward for USD. Detailed parameters of contracts concluded as at 31 December 2020 are presented in note 22 and in a table below.

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

### Cash flow hedges

As at 31 December 2020, the Group had no foreign exchange contracts. 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 |

**The fair value of the above contracts is presented below:**

| | 31.12.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Forward exchange contract | 0 | 0 | 1 014 | 1 035 |
| Fair value | | 0 | | 21 |

### *Note 47. CAPITAL MANAGEMENT*

The main objective of the Group'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 Group 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 Group may change the dividend payment to shareholders, return capital to shareholders or issue new shares. In the year ended 31 December 2020 and 31 December 2019, no changes were introduced to the objectives, principles and processes in force in this area.

The Group monitors the balance of capital using the leverage ratio, which is calculated as the ratio of net debt to total equity plus net debt. In accordance with the Group'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 Parent Company less reserve capital from unrealized net gains.

In 2019 and 2020, the above ratio remains below the expected range due to the fact that the Group did not use the available overdraft facilities in the amount of PLN 2,000 and in connection with a significant allocation of cash in 2020.

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

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Interest-bearing loans | 941 | 1 392 |
| Trade and other liabilities excluding income tax liabilities | 8 442 | 10 889 |
| Less cash and cash equivalents | 13 196 | 5 199 |
| **Net debt** | **-3 813** | **7 082** |
| Convertible preference shares | 0 | 0 |
| Equity | 39 848 | 37 446 |
| Reserve capital from unrealized net gains | 0 | 0 |
| **Total equity** | **39 848** | **37 446** |
| **Net equity and net debt** | **36 035** | **44 528** |
| Leverage ratio | -11% | 16% |

### *Note 48. EMPLOYEE BENEFIT PLANS*

The Group did not implement an employee share scheme.

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

### *Note 49. INFORMATION ON ASSOCIATES*

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

| Associate | Sale to associates | | Purchases from associates | | Receivables from associates | | including past-due | | Liabilities towards associates | | including past-due | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Parent Company** | **31.12.2020** | **31.12.2019** | **31.12.2020** | **31.12.2019** | **31.12.2020** | **31.12.2019** | **31.12.2020** | **31.12.2019** | **31.12.2020** | **31.12.2019** | **31.12.2020** | **31.12.2019** |
| LSI Software S.A. | 1 584 | 986 | 2 921 | 1 918 | 371 | 168 | 240 | 131 | 458 | 650 | 215 | 434 |
| **Subsidiary undertakings:** | | | | | | | | | | | | |
| LSI Software s.r.o. | 26 | 36 | | 322 | 6 | | | | 85 | 131 | 85 | 131 |
| GiP Sp. z o.o. | 1 940 | 1 504 | 1 675 | 748 | 409 | 611 | 215 | 434 | 300 | 9 | 155 | |
| Positive Software USA LLC | 116 | | | | | | | | | 37 | | |
| **Management Boards of Group's companies** | | | | | | | | | | | | |
| **LSI Software S.A.** | | | | | | | | | | | | |
| Bartłomiej Grduszak | 153 | 156 | 4 | 3 | 20 | 16 | | | | | | |
| Michał Czwojdziński | 208 | 228 | | | 23 | 23 | | | | | | |
| Grzegorz Strąk | 99 | 91 | 4 | 4 | 14 | 9 | | | | | | |
| Grzegorz Siewiera | 478 | | | | | | | | | | | |
| **GiP Sp. z o.o.** | | | | | | | | | | | | |
| Michał Czwojdziński | | | | | | | | | | | | |
| Bartłomiej Grduszak | | | | | | | | | | | | |
| Grzegorz Siewiera | | | | | | | | | | | | |
| **LSI Software s.r.o.** | | | | | | | | | | | | |
| Michał Czwojdziński | | | | | | | | | | | | |
| Bartłomiej Grduszak | | | | | | | | | | | | |
| Grzegorz Siewiera | | | | | | | | | | | | |
| **Positive Software USA LLC** | | | | | | | | | | | | |
| Grzegorz Siewiera | | | | | | | | | | | | |

**Group's Parent Company**

LSI Software S.A.

**Entity with significant influence over the Group**

As at 31 December 2020 and 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.

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

**Affiliated undertaking**

As at 31 December 2020, the Group has no affiliated undertakings.

**Joint ventures in which the Company is a partner:**

As at 31 December 2020 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.

**Loan granted to a Member of the Management Board**
In 2020, there were no agreements to provide loans to members of the Management Board.

**Other transactions with members of the Management Board**
In the financial year ended on 31 December 2020, the purchase transactions between the Group and members of the Management Board of the Group were concluded in the total amount of PLN 938 thousand (in the financial year ended 31 December 2019 the value of these transactions amounted to PLN 475 thousand). The subject transactions concerned the provision of services to LSI Software S.A. and GiP Sp. z o.o.

### *Note 50. REMUNERATION OF KEY MANAGEMENT PERSONNEL AND SUPERVISORY BOARD*

Remuneration paid or due to members of the Management Board and members of the Supervisory Boards of Group's companies is presented in the table below.

**Benefits paid to members of the Management and Supervisory Boards**

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Short-term employee benefits (remunerations and surcharges) | 369 | 495 |
| Other long-term benefits | 0 | 0 |
| **TOTAL** | **369** | **495** |

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

| | Position | 01.01 - 31.12.2020 | 01.01 - 31.12.2019 |
|---|---|---|---|
| **Remuneration of Members of the Management Board** | | | |
| **LSI Software S.A.** | | | |
| Grzegorz Siewiera | President of the Management Board | 0 | 0 |
| Bartłomiej Grduszak | Vice-President of the Management Board | 78 | 111 |
| Michał Czwojdziński | Member of the Management Board | 29 | 111 |
| Grzegorz Strąk | Member of the Management Board | 236 | 245 |
| **GiP Sp. z o.o.** | | | |
| Michał Czwojdziński | President of the Management Board | 0 | 0 |
| Bartłomiej Grduszak | President of the Management Board | 0 | 0 |
| Grzegorz Siewiera | Vice-President of the Management Board | 0 | 0 |
| **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** | | **343** | **467** |
| **Remuneration of Members of the Supervisory Board** | | | |
| Maciej Węgierski | Member | 6 | 6 |
| Piotr Kraska | Vice-Chairman | 8 | 6 |
| Andrzej Kurkowski | Member | 5 | 6 |
| Jolanta Drelich | Member | 3 | 0 |
| Krzysztof Wolski | Chairman | 13 | 10 |
| Grzegorz Siewiera | Chairman | 8 | 16 |
| **TOTAL** | | **43** | **44** |

### *Note 51. EMPLOYMENT*

### Average employment

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Management Board | 1 | 1 |
| Administration | 12 | 12 |
| Sales Department | 35 | 39 |
| Production Division | 59 | 54 |
| Other | 59 | 56 |
| TOTAL | **166** | **162** |

### Employment turnover

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| The number of recruits | 33 | 78 |
| Number of redundant employees | 58 | 48 |
| TOTAL | **-25** | **30** |

### *Note 52. OPERATING LEASE AGREEMENTS*

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

### *Note 53. CAPITALIZED BORROWING COSTS*

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

### *Note 54. REVENUES RECEIVED SEASONALLY, CYCLICALLY OR OCCASSIONALLY*

The Group's business operations are not seasonal or cyclical in nature.

### *Note 55. COURT PROCEEDINGS*

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

### *Note 56. TAX SETTLEMENTS*

Tax settlements and other regulated areas (e.g. customs and exchange issues) may be subject to scrutiny by the administrative authorities who are entitled to impose high penalties and sanctions. The lack of reference to established legal regulations in Poland results in a lack of clarity and inconsistency. Frequent differences in opinions as to the legal interpretation of tax laws, both within government bodies and between state authorities and businesses, create uncertainties and conflicts. Such situation result in the fact that tax risk in Poland is significantly higher than this typically found in countries with more developed tax systems.

Tax settlements may be subject to inspection for a period of five years as from the end of the year in which the tax was paid. As a result of control performed, the Group's tax settlements may be increased by additional tax liabilities. According to the Management Board of the Group, as at 31 December 2020, adequate provisions were recognised for identified and quantifiable tax risks.

### *Note 57. WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT*

On 21 October 2005, most of the provisions of the Act on Waste Electrical and Electronic Equipment ("WEEE") came into force. It imposes on entities placing electronic and electrical equipment (manufacturers and importers) on the market, among others the obligation to organize and finance the collection of spent equipment, processing, recovery, recycling and disposal of waste equipment from operators. Entities placing the household appliances are required to ensure the collection of waste equipment from households.

In order to estimate the provision, the following data shall be available for the Group: the number of kilograms of historical WEEE to be collected by the Group and the remaining number of kilograms of new WEEE to be collected by the Company. In the reports required by the Ministry of Environmental Protection there is no distinction between new and historical WEEE. Taking into account organization of the collection and WEEE collection reporting system, the Company is unable to estimate the amount of WEEE to be collected by the Company in order to comply with the obligations under the Act on Waste Electrical and Electronic Equipment. Consequently, the Company did not establish any provisions for liabilities relating to historical WEEE, nor the new WEEE. The Company does not exclude the possibility of verifying its position in these terms, in the case of issuance of other binding interpretations of the Act, or when the practice of applying the Act will indicate a different accounting approach to the obligation associated with WEEE.

### *Note 58. EVENTS AFTER BALANCE SHEET DATE*

As at the date of this report, the Group's companies run their business activities and take 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 its business partners. The above conditions may also affect the Group's financial results in the first quarter of 2021. The measures taken by the individual countries in which the Group's companies conduct their operations will also significantly affect the level of revenue from foreign sales.

Recommendations and prohibitions issued by the state authorities concerning restrictions on travelling and conducting business activities may cause a temporary decrease in revenues 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.

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 Group'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 Group has sufficient financial resources to continue its operations, including settlement of current liabilities. The Issuer 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 Group. 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.

On 3 February 2021, the Company concluded a financial subsidy agreement under Shield 2.0 with PFR S.A. (Polish Development Fund) for the amount of PLN 3,489 thousand. At the same time, the Issuer may expect 100% cancellation of the subsidy received under Shield 1.0 in the amount of PLN 2,846 thousand. Until the date of preparation of the annual consolidated financial statement for 2020, 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 Group 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 Issuer's results and its situation in the medium and long term.

### *Note 59. PARTICIPATION OF SUBSIDIARIES NOT COVERED BY THE CONSOLIDATED FINANCIAL STATEMENT*

As at 31 December 2020 and 31 December 2019, the Group 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.

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

Until the day of preparation of the report hereof, the Issuer did not receive financial statements of BluePocket S.A. for the years 2014-2020.

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

| Remuneration paid or due for the financial year | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| - 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 | 12 | 0 |
| **TOTAL** | **94** | **82** |

### *Note 61. EXPLANATIONS TO THE CASH FLOW STATEMENT*

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| **Cash recognized in the balance sheet** | **13 196** | **5 199** |
| Foreign exchange differences on balance sheet valuation | 68 | -68 |
| 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** | **13 128** | **5 267** |

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| **Amortisation:** | **4 715** | **4 762** |
| amortisation of intangible assets | 3 397 | 3 663 |
| amortisation of fixed tangible assets | 1 318 | 1 099 |
| amortisation of investment property | | |
| | | |
| **Interest and share in profits (dividends) consists of:** | **131** | **149** |
| interest paid on loans contracted | 24 | 47 |
| interest paid on lease agreements | 107 | 104 |
| Interest received | | |
| Interest on debt securities | | |
| Interest paid on long-term receivables | | |
| Dividends received | | |
| Interest accrued on loans contracted | | -2 |
| Interest accrued on bank loans | | |
| | | |
| **Profit (loss) on investing activities results from:** | **-153** | **-77** |
| Revenues from the sale of intangible assets | | |
| Net value of intangible assets sold | | |
| Revenues from the sale of tangible fixed assets | -180 | -107 |
| Net value of sold tangible fixed assets | 48 | 56 |
| net value of liquidated fixed assets | | |
| Revaluation of fixed assets | | |
| Revaluation of short-term financial assets | -21 | -26 |
| | | |
| **The change in provisions results from the following items:** | **98** | **474** |
| Balance sheet change in provisions for liabilities | 97 | 472 |
| Balance sheet change in provisions for employee benefits | 1 | 2 |

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

| | | |
|---|---|---|
| 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:** | **1 646** | **-1 924** |
| Balance sheet change in inventory | 1 646 | -1 924 |
| 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:** | **9 399** | **-3 757** |
| Change in short-term receivables arising from the balance sheet | 9 399 | -3 757 |
| 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:** | **-7 402** | **1 540** |
| Change in short-term liabilities resulting from balance sheet | -2 384 | 4 347 |
| Correction by repaid credit | -452 | -400 |
| correction in respect of subsidies received | -3 257 | |
| 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 | -1 309 | -2 407 |
| correction by a change in liabilities due to acquisition of financial assets | | |
| Operating liabilities acquired as a result of acquisition of control (operating liabilities of a subsidiary at the date of acquisition of control with "-" mark) | | |
| 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:** | **0** | **-19** |
| cash and cash equivalents acquired as a result of obtaining control | | |
| cancelled loans and borrowings | | |
| subsidies received | 0 | -19 |

**Łódź, 30 April 2021**

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

**Signature of a person preparing the financial statement:**

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

# F. Report of the Management Board on business activities of the Company and the Group in 2020

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 2020 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 on business activities of LSI Software S.A. in the financial year 2020 and report of the Management Board of LSI Software S.A. on business activities of the Group in the financial year 2020 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 data

LSI SOFTWARE GROUP / LSI SOFTWARE JOINT STOCK COMPANY
with its registered office in Łódź (93-120)
176/178 Przybyszewskiego 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 2020 – 31 December 2020. The comparable period: 1 January 2019 – 31 December 2019.

## 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 30 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

- **Staff Scheduler** - a mobile application for developing and managing staff work schedules
- **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
- **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 2020.

## 2. Information on markets and supply sources

In 2020 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 within 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 2020 amounted to nearly 16%. At the same time, the Management Board of the Company indicates that there are no formal links between the Issuer and POSIFLEX TECHNOLOGY INC.

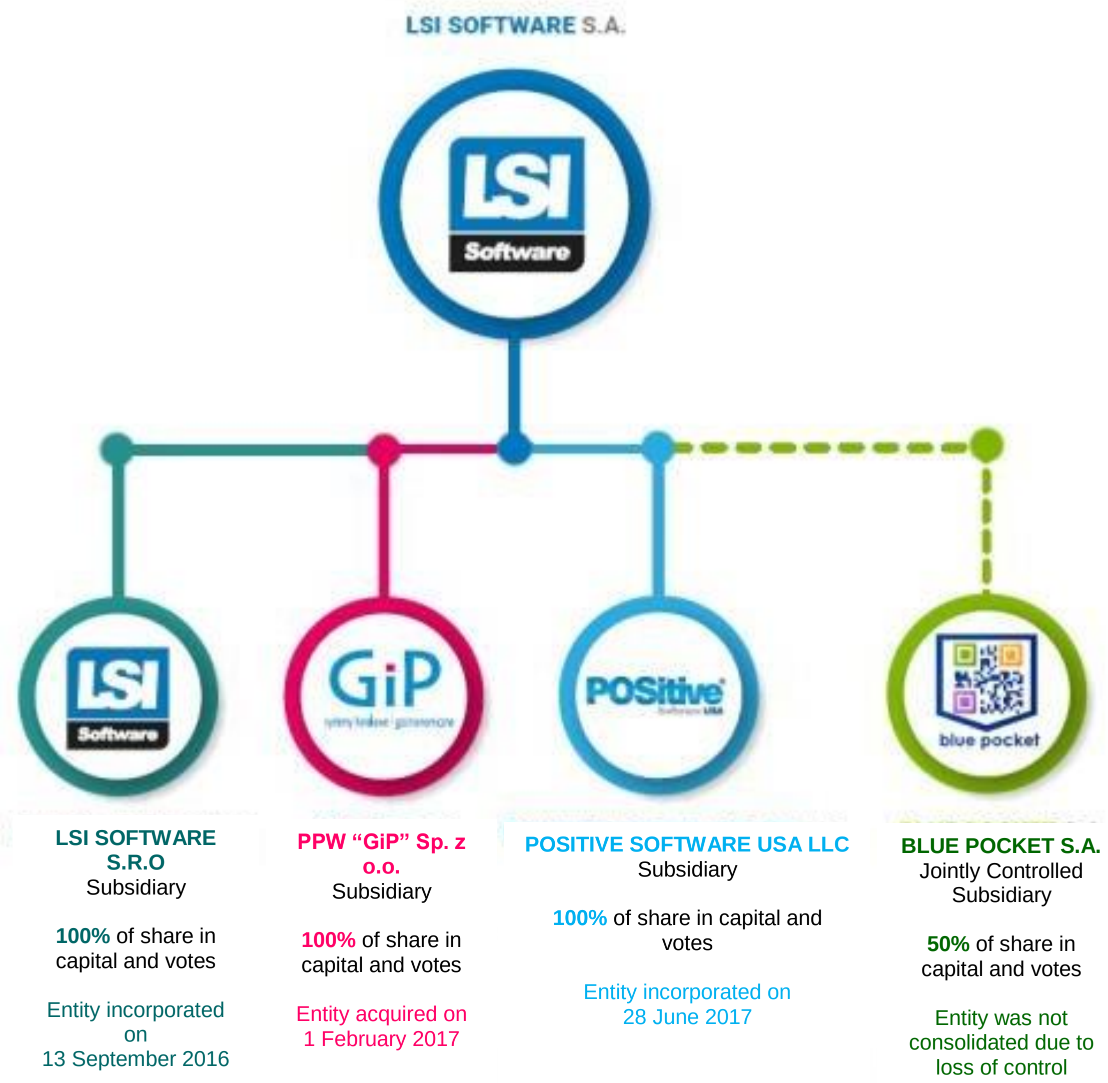
## 3. Organisational and capital links between the Group and other entities with indication of its main domestic and foreign investments, including capital investments made outside its group of associates, with description of methods of their financing

As at 31 December 2020, LSI Software Group is composed of the following entities:

- LSI Software S.A. as a Parent Company,
- 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 2014-2020. At the same time, due to the fact that the meetings of the Supervisory Board are not attended by members appointed by Bastion Venture Fund sp. z o.o. S.K.A. as a Shareholder, LSI Software S.A. is not able to independently appoint the Management Board of BluePocket S.A. which results in the actual lack of the Issuer's ability to govern financial and operating policies of this entity. Due to the above, the Management Board of LSI Software S.A. adopted for consolidation under the equity method, the last financial result approved by the Management Board of BluePocket S.A., that is financial result for the period of 1 January – 30 September 2014. In 2020 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 branches. Below is a graphical presentation of the Group.




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

In 2020, 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.

On 11 August 2020, an agreement was concluded with the former shareholders of GiP Sp. z o.o. amending the agreement on the sale of shares in that company, whereby the amount of the last tranche of the consideration payment was reduced from PLN 436 thousand to PLN 301 thousand. The above change resulted in an increase in the goodwill of GiP Sp. z o.o. to PLN 2,815 thousand and completed the process of acquisition of GiP Sp. z o.o.

In addition, a new layout based on separate product divisions has been introduced in the Group's structure from 2020:

- Gastro Division,
- Hotel Division,
- Cinema Division,

- GiP Division,
- Hardware Division,
- Retail Division.

Within the separated divisions, the financial performance and efficiency of the use of available resources are monitored.

## 6. Information on loans and borrowings contracted and terminated in 2020

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 2020 no loan agreements were terminated within the Group.

## 7. Information on sureties and guarantees granted and received in 2020

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 375 thousand with the expiration date until 31 December 2021
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 2020 amounts to PLN 2,292 thousand.

## 8. Loans granted in the financial year 2020, with particular consideration of loans granted to associated undertakings of the Company

In 2020, 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 subject matter of the agreement is the supply, implementation, maintenance and development of POSitive® Cinema system in 19 further cinemas operated by muvi Cinemas in 2020. The agreement was concluded for an indefinite period of time whereby implementation of the last of the cinemas 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 facilities operated by © muvi Cinemas (without taking into account potential supplies of equipment) is USD 937 thousand i.e. PLN 3,706 thousand translated at the average exchange rate of the National Bank of Poland as of 19 February 2020. The estimated total value of services associated with the first stage of the project partially completed in 2019 and the second stage covered by the current agreement is USD 1,577 thousand or PLN 5,430 thousand.

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

On 30 June 2020 an agreement was concluded between the Issuer and KITAG Kino-Theater AG with its registered office in Zurich. The subject matter of the agreement is the supply, implementation, maintenance and development of POSitive® Cinema system in cinema facilities operated by operated by KITAG CINEMAS. The agreement was concluded for an indefinite period of time whereby implementation of the last of the cinemas covered by this agreement was scheduled for the end of 2021.
The estimated value of the agreement including the supply, implementation and maintenance of POSitive® Cinema over the period of 5 years is EUR 2.06 million or PLN 9,192,134 translated at the average exchange rate of the National Bank of Poland as of 29 June 2020.

It should also be mention that on 4 September 2020 an agreement was concluded between the Issuer and Piekarnia Hert Sp. z o.o. with its registered office in Jelcz-Laskowice. The subject matter of the agreement is the supply by LSI Software S.A. of computer hardware with a value of at least PLN 2.2 million net. The agreement will be executed in accordance with the agreed schedule, which provides for delivery of the last batch of equipment by 31 March 2021. As at the date of publication of this report, the project is 100% complete.

On 8 January 2021 an agreement was concluded between the Issuer and S&T Poland Sp. z o.o. with its registered office in Warsaw. The agreement provides for delivery by LSI Software S.A. of the equipment under a tender procedure concluded by the Ministry of Finance for the supply, by way of direct operating leasing, of workstation sets for the needs of SPOE KAS distribution network, with the value of not less than USD 503.4 thousand net, i.e. PLN 1,858,392 as translated at the average exchange rate of the National Bank of Poland applicable on 8 January 2021. The agreement will be executed in accordance with the agreed schedule, which provides for its completion in the first half of 2021.
The agreement provides for LSI Software S.A. company's liability towards S&T Poland Sp. z o.o. for delay in delivery of equipment in the form of a penalty at the amount of PLN 5,000 per day. The Issuer's liability limit in this respect has been set at 12% of the net price of the equipment. The penalty also cannot exceed the penalty imposed by the end customer on this account.
Other conditions of the agreement do not differ 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 monitors 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 maintained an upward trend as compared to the growth rate of gross domestic product. 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 ruled out that the status of the partnership may change in the future, especially with regard to a possible increase in the cost of access to technology, which in turn could affect the need to modify the pricing policy for customers and thus partially reduce 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 way to attract employees is to offer them competitive working conditions and pay. 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. Optimal incentive schemes are developed to build positive relationships with employees, guaranteeing limited staff turnover and thus allowing to maintain a stable pool of qualified employees with extensive experience in the IT industry.

**Factors associated with the environment in which the Group operates**

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

In Poland, laws and their interpretations change frequently. Many of the regulations in force, particularly those on taxation, are not worded with sufficient precision and lack unambiguous 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.

- **Risks related to the macroeconomic and geopolitical situation of Poland and worldwide**

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. A particular threat is posed by the consolidation of IT companies in the market and the growing number of institutions employing their own specialists in the field of IT solutions, which may also affect the competitiveness of the Group against other entities, which may consequently put a strain on its operations and financial performance. Therefore, it cannot be ruled out that the growing and intensifying competitive struggle will not affect the level of profitability of the Group's operations.

- **Risk of industry consolidation**

Consolidation processes in the IT industry lead to the consolidation of the largest players on the market, which facilitates their access to new groups of 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 include:

- 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 commonly, 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 its business partners. The above circumstances may also affect the Company's financial results in the first and subsequent quarters of 2021. The measures taken by the individual countries on the territory of which the Group's companies conduct their 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.

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 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 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,
- 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 2020

The process of 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 2020, 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 and Saudi Arabia. This also resulted in conclusion of an agreement to implement the software in the Blue Cinema chain in Switzerland, where the POSitive® Cinema system will support the operation of 14 cinemas. The system was also successfully implemented in ten mmCineplexes cinemas in Malaysia, which is the third largest cinema chain in this country.
As far as the product aspect is concerned, the Group's activities were mainly focused on further development of the POSitive® Cinema system by enriching it with an additional SMART CINEMA solution, which allows for comprehensive management of a cinema facility with the use of automated decision-making systems. Another development project implemented in 2020 was the development of a Marketing Automation class system. Self-service mobile applications for the catering industry were also introduced to the offer. These are the next products that are offered in the SaaS (Software as a Service) model, which will bring a steady and stable source of revenue in the future. Currently, the greatest emphasis in the development strategy is put on solutions for broadly understood e-commerce, which is addressed to each of the supported industries.
The Issuer's development directions were also connected with obtaining funds from the European Union Funds for the years 2014-2020. In 2020, Group’s companies implemented EU projects with a total co-financing value close to 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 spread of coronavirus and actions taken by the Polish authorities in order to prevent the epidemic shall be classified as main events which had a significant impact on business operations of the Group. Mentioned events had an adverse effect on both the Issuer's operations and its contractors. The above circumstances may also affect the Company's financial results in the first and subsequent quarters of 2021. The measures taken by the individual countries on the territory of which the Group’s companies conduct their operations will also significantly affect the level of revenue from foreign sales.

In 2020 LSI Software S.A. entered into cooperation which resulted in conclusion of an agreement for the supply, implementation, maintenance and development of POSitive® Cinema system in 19 further cinemas operated by muvi Cinemas.
The estimated value of the contract related to the execution of this year's openings of new facilities operated by © muvi Cinemas (without taking into account potential supplies of equipment) is USD 937 thousand i.e. PLN 3,706 thousand translated at the average exchange rate of the National Bank of Poland as of 19 February 2020. The estimated total value of services associated with the first stage of the project partially completed in 2019 and the second stage covered by the current agreement is USD 1,577 thousand or PLN 5,430 thousand.

On 30 June 2020 an agreement was concluded between the Issuer and KITAG Kino-Theater AG with its registered office in Zurich. The subject matter of the agreement is the supply, implementation, maintenance and development of POSitive® Cinema system in cinema facilities operated by operated by KITAG CINEMAS. The agreement was concluded for an indefinite period of time whereby implementation of the last of the cinemas covered by this agreement was scheduled for the end of 2021.

The estimated value of the agreement including the supply, implementation and maintenance of POSitive® Cinema over the period of 5 years is EUR 2.06 million or PLN 9,192,134 translated at the average exchange rate of the National Bank of Poland as of 29 June 2020.
It should also be mention that on 4 September 2020 an agreement was concluded between the Issuer and Piekarnia Hert Sp. z o.o. with its registered office in Jelcz-Laskowice. The subject matter of the agreement is the supply by LSI Software S.A. of computer hardware with a value of at least PLN 2.2 million net.

The agreement will be executed in accordance with the agreed schedule, which provides for delivery of the last batch of equipment by 31 March 2021.

On 8 January 2021 an agreement was concluded between the Issuer and S&T Poland Sp. z o.o. with its registered office in Warsaw. The agreement provides for delivery by LSI Software S.A. of the equipment under a tender procedure concluded by the Ministry of Finance for the supply, by way of direct operating leasing, of workstation sets for the needs of SPOE KAS distribution network, with the value of not less than USD 503.4 thousand net, i.e. PLN 1,858,392 as translated at the average exchange rate of the National Bank of Poland applicable on 8 January 2021. The agreement will be executed in accordance with the agreed schedule, which provides for its completion in the first half of 2021.

# 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 equity. All shares have a nominal value of PLN 1.00 each and compose the share capital in the amount of PLN 3,260,762.

### 1. Potential changes in the shareholder structure

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

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

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

### 3. Information on the buy-back of own shares

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

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

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

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.

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

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 2020, no securities were issued by any of the Group's companies.

# IV. Governing bodies

### 1. Composition and changes to the composition of the Management Board and Supervisory Board

**Management Board**

As at 31 December 2020, the composition of LSI Software S.A. Management Board was as follows

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

On 7 July 2020, the General Meeting appointed Mr. Grzegorz Siewiera as President of the Management Board and Mr. Bartłomiej Grduszak as Vice-President of the Management Board. At the same time, Mr. Michał Czwojdziński, the previous Vice-President of the Management Board, assumed the function of a Member of the Management Board.

**Supervisory Board**

As at 31 December 2020, the composition of LSI Software S.A. Supervisory Board was as follows:

| | | |
|---|---|---|
| Krzysztof Wolski | - | Chairman of the Supervisory Board |
| Piotr Kraska | - | Vice-Chairman of the Supervisory Board |
| Andrzej Kurkowski | - | Member of the Supervisory Board |
| Maciej Węgierski | - | Member of the Supervisory Board |
| Jolanta Drelich | - | Member of the Supervisory Board |

On 25 June 2020, Mr. Grzegorz Siewiera resigned from the position of Chairman of the Supervisory Board of LSI Software S.A. In turn, on 7 July 2020, the General Meeting appointed Mrs. Jolanta Drelich as a new Member of the Supervisory Board.

**Audit Committee**

As at 31 December 2020, 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 |
| Jolanta Drelich | - | Member of the Audit Committee |
| Maciej Węgierski | - | Member of the Audit Committee |

In 2020, there were changes to the composition of the Audit Committee. On 25 June 2020, Mr. Grzegorz Siewiera resigned from his position as Member of the Audit Committee of LSI Software S.A. Whereas, on 17 September 2020 the Supervisory Board appointed Mrs. Jolanta Drelich to the Audit Committee as a Member of the 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 2019 - 2020 under the concluded employment contracts as well as for the functions performed is presented in the table below.

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

| | Position | 01.01 - 31.12.2020 | 01.01 - 31.12.2019 |
|---|---|---|---|
| **Remuneration of Members of the Management Board** | | | |
| **LSI Software S.A.** | | | |
| Grzegorz Siewiera | President of the Management Board | 0 | 0 |
| Bartłomiej Grduszak | Vice-President of the Management Board | 78 | 111 |
| Michał Czwojdziński | Member of the Management Board | 29 | 111 |
| Grzegorz Strąk | Member of the Management Board | 236 | 245 |
| **GiP Sp. z o.o.** | | | |
| Bartłomiej Grduszak | President of the Management Board | 0 | 0 |
| Bartłomiej Grduszak | Vice-President of the Management Board | 0 | 0 |
| Michał Czwojdziński | President of the Management Board | 0 | 0 |
| **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** | | **343** | **467** |
| **Remuneration of Members of the Supervisory Board** | | | |
| Maciej Węgierski | Member | 6 | 6 |
| Piotr Kraska | Vice-Chairman | 8 | 6 |
| Andrzej Kurkowski | Member | 5 | 6 |
| Jolanta Drelich | Member | 3 | 0 |
| Krzysztof Wolski | Chairman | 13 | 10 |
| Grzegorz Siewiera | Chairman | 8 | 16 |
| **TOTAL** | | **43** | **44** |

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.

### 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 2020.

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

| | Number of shares | Number of votes | % of votes at GM |
|---|---|---|---|
| Michał Czwojdziński (Member of the Management Board) | 29 682 | 29 682 | 0,61 |
| Grzegorz Siewiera (President of the Management Board) | 1 000 000 | 2 600 000 | 53,49 |
| Krzysztof Wolski (Chairman of the Supervisory Board) | 1 000 | 1 000 | 0,02 |
| Piotr Kraska (Vice-Chairman of the Supervisory Board) | 404 136 | 404 136 | 8,31 |

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

| | Number of shares | Number of votes | % of votes at GM |
|---|---|---|---|
| Grzegorz Siewiera (President of the Management Board) | 1 004 280 | 2 604 280 | 53,58 |

As at 31 December 2020 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

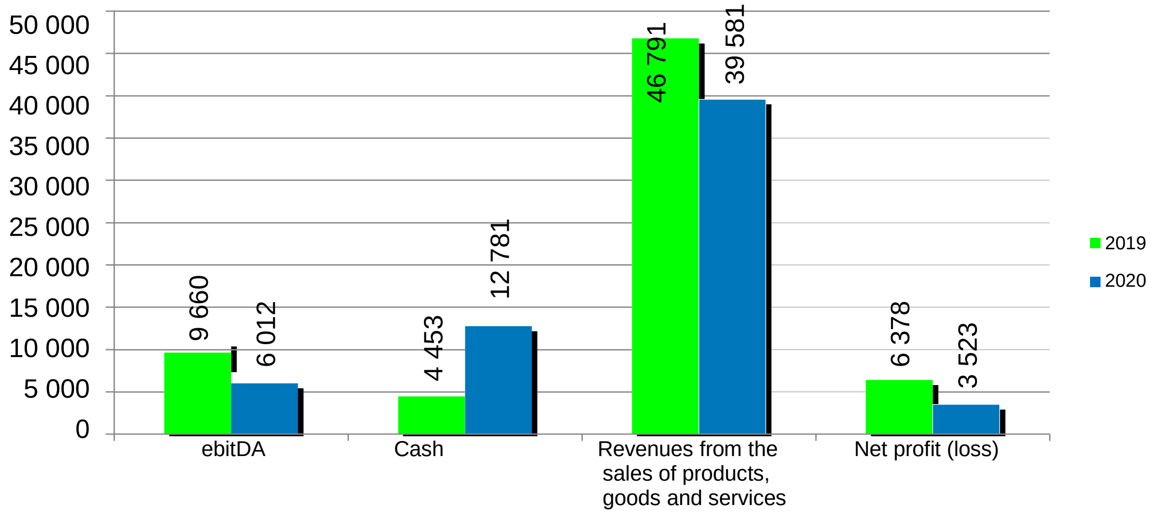
In 2020, LSI Software S.A. focused its activities on preserving the existing scale of operations despite the exceptionally unfavourable circumstances associated with the coronavirus pandemic. It was not a successful period in terms of achieved financial results. Due to further restrictions imposed on the business operations within the operated industries, the Company generated a 15% lower revenue than in 2019, which amounted to PLN 39,581 thousand, and a net profit half that of the previous year, which closed at PLN 3,523 thousand.

The profitability of operations at the level of EBIT and gross profit on sales has also deteriorated, which is primarily attributable to lower sales revenues. Another factor contributing to lower profitability on sales was the decrease in the margin on sales of goods.

In turn, the profit at the EBITDA level decreased in relation to 2019 from PLN 9,660 thousand to PLN 6,012 thousand or by 38%.

| Selected data | 12 months ended 31.12.2020 | 12 months ended 31.12.2019 | Change |
|---|---|---|---|
| Revenues | 39 581 | 46 791 | 85% |
| Gross profit/loss on sales | 2 672 | 8 870 | 30% |
| EBIT | 1 795 | 5 298 | 34% |
| EBITDA (EBIT+Depreciation) | 6 012 | 9 660 | 62% |
| Net profit/loss | 3 523 | 6 378 | 55% |
| Cash | 12 781 | 4 453 | 287% |

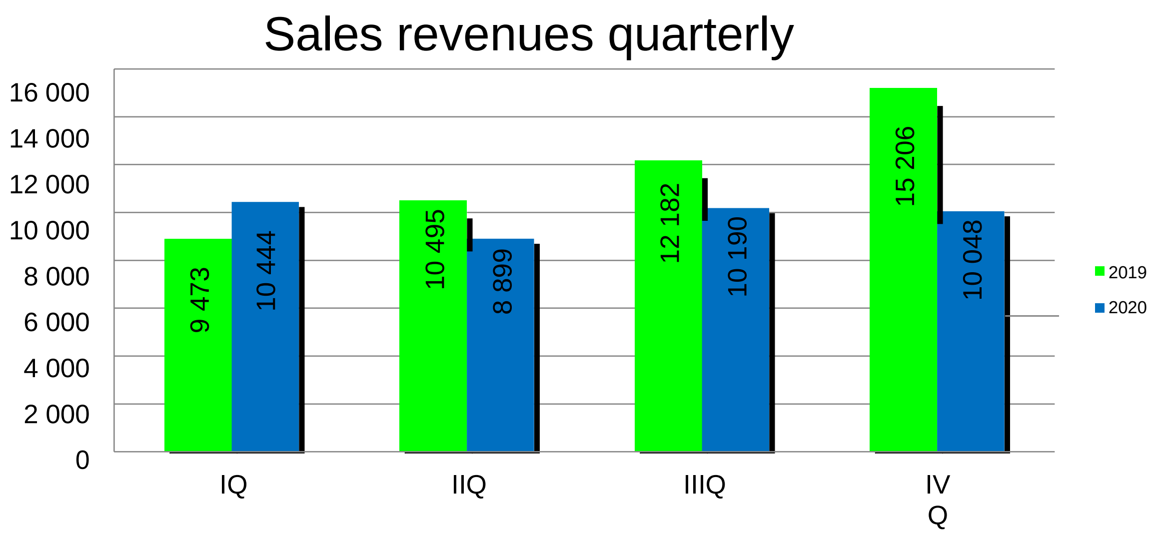
*(All amounts are expressed in PLN thousand, unless otherwise indicated)*




At the same time, it should be noted that the above changes brought about a decrease in the net profit margin by 4.7 p.p. from 13.6% to 8.9% at the end of 2020.
The main factors which had a negative impact on the Company's financial performance in 2020 were, among others:
- a decrease in revenues caused by a negative impact of the pandemic,
- temporary restrictions on business operations in most industries supported by the Company,
- decisions made by clients to suspend or cancel ongoing projects,
- suspension or postponement of decisions concerning the commencement of investment projects planned by the Company's clients,
- interrupted or delayed projects in the supply chains.

| **Profitability ratios** | **12 months ended 31.12.2020** | **12 months ended 31.12.2019** | **Change** |
|---|---|---|---|
| Gross profit margin on sales | 6,8% | 19,0% | -12,2 p.p |
| EBITDA margin | 15,2% | 20,6% | -5,4 p.p |
| Operating profit margin | 4,5% | 11,3% | -6,8 p.p |
| Net profit margin | 8,9% | 13,6% | -4,7 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 reporting period, the Company's total assets increased by 1% from PLN 54,612 thousand to PLN 55,166 thousand. The change in total assets is mainly related to an increase in:

- deferred tax assets,
- intangible assets,
- cash.

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

As at the end of 2020, the share of intangible assets in the Company's balance sheet total amounted to 23%, i.e. by 1 pp more than as at the end of 2019. The dominant item of current assets are cash and cash equivalents (54% of current assets) and trade receivables (26% of current assets). The value of equity as at the end of 2020 increased by 9% as compared to the end of 2019 and amounted to PLN 41 638 thousand. In 2020, the Company's share capital did not change comparing to 2017 and amounted to PLN 3,261 thousand. As at 31 December 2020, the total liabilities of LSI Software S.A. decreased by more than 18% as compared to the end of 2019 and amounted to PLN 13,528 thousand.

The main items of the Company's short-term liabilities are trade and other liabilities. In the period covered by the financial statement hereof, the Company used external financing in the form of credit and lease agreements. The equity continues to be the main source of financing for LSI Software S.A. (75% of the balance sheet total). The Company's general debt ratio dropped as compared to previous year and stands at 24.5% which is due to the repayment of liabilities. 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.

| **Liquidity ratios** | **31.12.2020** | **31.12.2019** | **Change** |
|---|---|---|---|
| Working capital | 13 700 | 11 677 | 117% |
| Current ratio | 2,4 | 2,0 | 0,4 p. |
| Quick ratio | 2,0 | 1,6 | 0,4 p. |
| Cash ratio | 1,3 | 0,4 | 0,9 p. |

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

Additional information essential for the evaluation of the financial position:
- there was a material nearly threefold increase in cash from PLN 4,453 thousand at the end of 2019 to PLN 12,781 thousand at the end of 2020,
- in the last twelve months, the value of working capital has grown significantly from PLN 11,677 thousand to PLN 13,700 thousand, which represents a 17% increase.

| **Debt ratio** | **31.12.2020** | **31.12.2019** | **Change** |
|---|---|---|---|
| Debt ratio | 24,5% | 30,2% | -5,7 p.p |
| Debt / Equity | 10,0% | 12,4% | -2,4 p.p |
| Debt / (Debt + Equity) | 9,1% | 11,0% | -1,9 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 2020 was not a successful period in terms of achieved financial results. Due to further restrictions imposed on the business operations within the operated industries, the Group generated a 17% lower revenue than in 2019, which amounted to PLN 43,075 thousand. On the other hand, the net profit achieved by the Group stood at PLN 2,402 thousand, which is 61% less as compared to that generated in 2019.

The profitability of business operations also deteriorated at the EBIT level, where more than 74% decrease in this ratio in relation to 2019 was recorded, as well as gross profit on sales, which is lower by 73%.

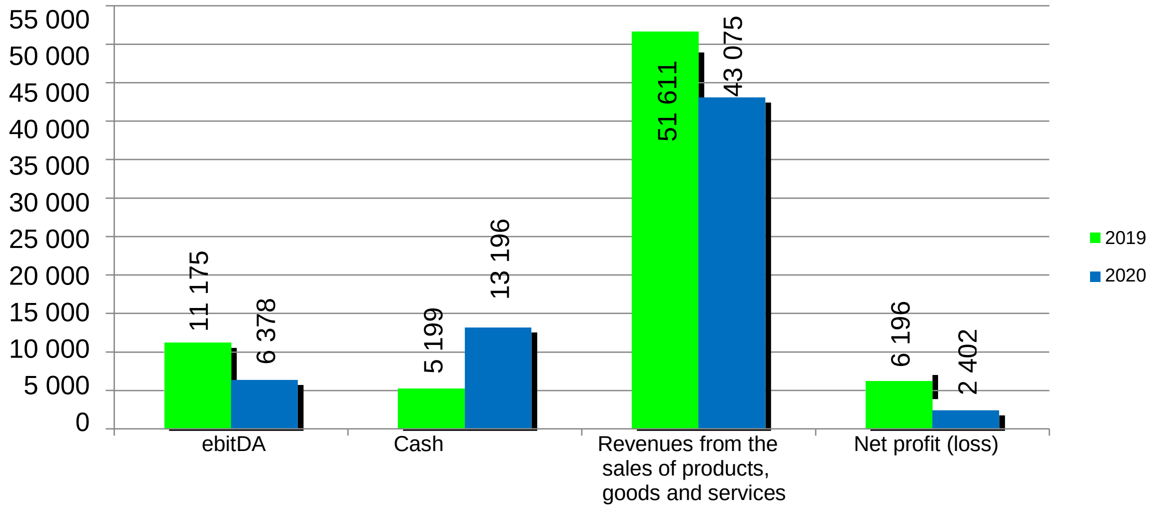
The above downturns were mainly caused by:
- a decrease in revenues caused by a negative impact of the pandemic,

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

- temporary restrictions on business operations in most industries supported by the Group,
- decisions made by clients to suspend or cancel ongoing projects,
- suspension or postponement of decisions concerning the commencement of investment projects planned by the Group's clients,
- interrupted or delayed projects in the supply chains.

| Selected data | 12 months ended 31.12.2020 | 12 months ended 31.12.2019 | Change |
|---|---|---|---|
| Revenues | 43 075 | 51 611 | 83% |
| Gross profit/loss on sales | 2 685 | 10 013 | 27% |
| EBIT | 1 663 | 6 413 | 26% |
| EBITDA (EBIT+Depreciation) | 6 378 | 11 175 | 57% |
| Net profit/loss | 2 402 | 6 196 | 39% |
| Cash | 13 196 | 5 199 | 254% |

The amount of profit at the EBITDA level, decreased in relation to 2019 from PLN 11,175 thousand to PLN 6,378 thousand or by 43%.



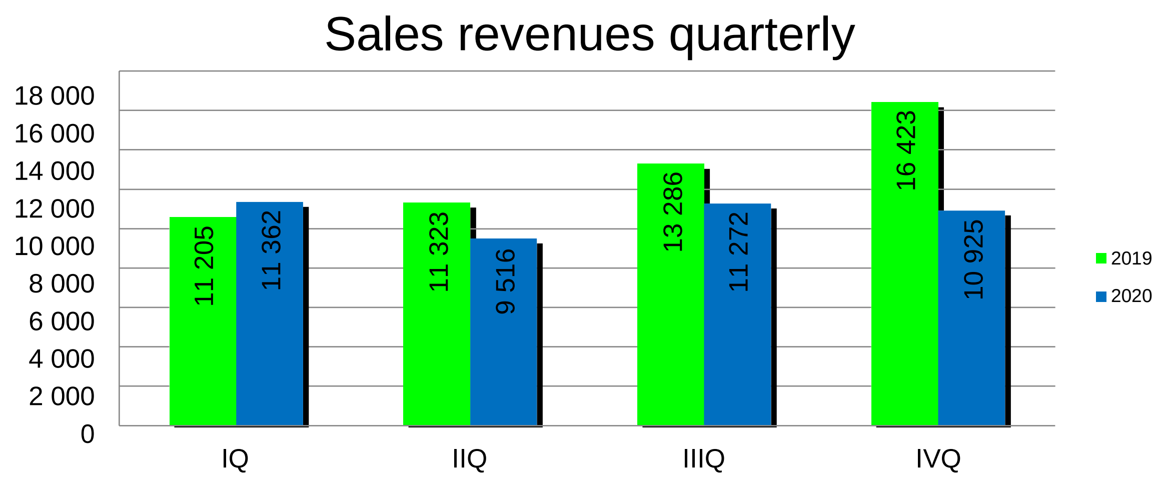

| Profitability ratios | 12 months ended 31.12.2020 | 12 months ended 31.12.2019 | Change |
|---|---|---|---|
| Gross profit margin on sales | 6,2% | 19,4% | -13,2 p.p |
| EBITDA margin | 14,8% | 21,7% | -6,9 p.p |
| Operating profit margin | 3,9% | 12,4% | -8,5 p.p |
| Net profit margin | 5,6% | 12,0% | -6,4 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 decreased by 1% from PLN 54,464 thousand to PLN 53,980 thousand. The change in the balance sheet total is mainly associated with a decrease in:

- trade receivables,
- inventory,
- fixed tangible assets.

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




As at the end of 2020, intangible assets accounted for more than 24% of the Group's total assets, i.e. 1 p.p. more than at the end of 2019. Cash and cash equivalents (nearly 53% of current assets) and trade receivables (26% of current assets) are the dominant current assets items. A significant decrease in the balance of trade receivables at the end of 2020 is related to their repayment and lower sales realised in the period.

| Liquidity ratios | 31.12.2020 | 31.12.2019 | Change |
|---|---|---|---|
| Working capital | 14 421 | 13 491 | 107% |
| Current ratio | 2,4 | 2,1 | 0,3 p. |
| Quick ratio | 2,0 | 1,7 | 0,3 p. |
| Cash ratio | 1,3 | 0,4 | 0,9 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 2020 increased by 6% as compared to the end of 2019 and amounted to PLN 39,848 thousand. In 2020, the share capital of LSI Software S.A. did not change comparing to 2019 and amounted to PLN 3,261 thousand. As at 31 December 2020, the total liabilities of the Group decreased by 17% as compared to the end of 2019 and amounted to PLN 14,132 thousand, which is due to the repayment of contracted liabilities.
The main items of the Issuer's short-term liabilities are trade and other liabilities. In the period covered by the financial statement hereof, the Group used external financing in the form of credit and lease agreements. The equity continues to be the main source of financing for the Group (74% of the balance sheet total). The Group's general debt ratio is lower than a year ago and stands at 26.2%. 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 | 31.12.2020 | 31.12.2019 | Change |
|---|---|---|---|
| Debt ratio | 26,2% | 31,2% | -5,1 p.p |
| Debt / Equity | 10,6% | 12,9% | -2,2 p.p |
| Debt / (Debt + Equity) | 9,6% | 11,4% | -1,8 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 evaluation of the financial position:

- there was a material nearly threefold increase in cash from PLN 5,199 thousand at the end of 2019 to PLN 13,196 thousand at the end of 2020,
- in the last twelve months, the value of working capital has grown from PLN 13,491 thousand to PLN 14,421 thousand, which represents a 7% increase.

### 3. Extraordinary (atypical) events

In the reporting period, no extraordinary or atypical events were recorded by 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. Prospects for development of the Group' s business activities

The key element of LSI Software Group's strategy is to provide proprietary 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 2020, demand for the Group's IT services and products dropped by 17% as compared to 2019. Within these two pillars, the strategic development directions of the LSI Software Group comprise:

- development of foreign sales, with particular emphasis on the markets of North America, 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 entered into 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 2020 the Group launched further large implementation projects in cinema networks operating in Switzerland, Saudi Arabia, Malaysia and the United States of America. 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 2021 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 clients. In view of the situation on the labour market and emerging sanitary restrictions, the Issuer has increased its focus on developing tools aimed at optimisation and automation of 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 new self-service kiosk models designed for various industries. 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 and after 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.

As far as distribution sales are concerned, two agreements are worth noting. First of them is the agreement concluded on 4 September 2020 between the Issuer and Piekarnia Hert Sp. z o.o. with its registered office in Jelcz- Laskowice, the subject of which is delivery by LSI Software S.A. of computer hardware worth at least PLN 2.2 million net. The agreement will be executed in accordance with the agreed schedule, which provides for delivery of the last batch of equipment by 31 March 2021. The second agreement was concluded on 8 January 2021 between the Issuer and S&T Poland Sp. z o.o. with its registered office in Warsaw. The agreement provides for delivery by LSI Software S.A. of the equipment under a tender procedure concluded by the Ministry of Finance for the supply, by way of direct operating leasing, of workstation sets for the needs of SPOE KAS distribution network, with the value of not less than USD 503.4 thousand net, i.e. PLN 1,858,392 as translated at the average exchange rate of the National Bank of Poland applicable on 8 January 2021. The agreement will be executed in accordance with the agreed schedule, which provides for its completion in the first half of 2021.

The Hotel and Catering divisions are areas with relatively high uncertainty as to the results to be achieved in the coming quarters. Both of the above-mentioned sectors are most severely affected by the pandemic, especially in the case of facilities which generate their income mainly from the organisation of conferences and larger events, as well as business trips. The situation is noticeably better when it comes to accommodation facilities, which is directly related to the introduced restrictions in air traffic and an increase in the number of tourists spending their holidays in Poland. In the opinion of the Company's Management Board, market conditions in the HoReCa industry should gradually improve in 2021, which will have a positive impact on the Group's financial results in subsequent periods. Efforts related to the reorganisation of the Group's companies and the reduction of their operating costs at all levels are also worth noting. Over the next few quarters, the effect of cost cutting should be particularly noticeable and should reach the level of ca. PLN 300 thousand on a monthly basis.

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 Issuer for the first and subsequent quarters of 2021. The measures taken by the individual countries on the territory of which the Company performs its operations will also significantly affect the level of revenue from foreign sales.

In order to mitigate the negative effects of the spread of coronavirus, the management boards of the Group's companies have effectively applied for financial subsidies in the total amount of PLN 3.3 million from the Polish Development Fund under the PDF Financial Shield Program launched on 29 April 2020. Both companies also received a wage subsidy for employees whose working hours were reduced following the COVID-19, with an estimated value of PLN 1.1 million. On 3 February 2021, the Group concluded a financial subsidy agreement under Shield 2.0 with PFR S.A. (Polish Development Fund) for the amount of PLN 3,489 thousand. At the same time, the Issuer may expect 100% cancellation of the subsidy received under Shield 1.0 in the amount of PLN 2,846 thousand. The total estimated amount of public aid received by the Group, taking into account the above-mentioned measures and the relief granted to GiP Sp. z o.o. from payment of half of contributions to the Social Insurance Institution (ZUS) in the period from March to May 2020, as well as the subsidy for working capital granted to LSI Software S.A., is estimated at PLN 8.2 million. The confirmation of the dynamic development of LSI Software Group in recent years is that the Issuer is among the laureates of the prestigious category of “Forbes Diamonds” 2021, which is awarded annually to the businesses most effectively increasing their value over the last three years.

## 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 projects, as well as for covering the capital expenditures incurred in 2020. In the opinion of the Management Board, at present there are no significant threats which could affect 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 Parent 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 01.01.2020 to 31.12.2020.

## 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 11 August 2020, an agreement was concluded with the former shareholders of GiP Sp. z o.o. amending the agreement on the sale of shares in that company, whereby the amount of the last tranche of the consideration payment was reduced from PLN 436 thousand to PLN 301 thousand. The above change resulted in an increase in the goodwill of GiP Sp. z o.o. to PLN 2,815 thousand and completed the process of acquisition of GiP Sp. z o.o. Apart from the above payment, in 2020 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 2020.

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

In 2020 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 2020, the Company does not apply 2 recommendations: III.R.1., IV.R.2.
As at 31 December 2020, the Company does not apply 4 detailed principles: I.Z.1.20., II.Z.8., IV.Z.2., V.Z.6.

**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.

**II.Z.8. The chairman of the audit committee meets the independence criteria indicated in principle II.Z.4**

The chairman of the audit committee does not meet the independence criteria indicated in principle II.Z.4. The chairman of the audit committee meets the independence criteria in accordance with Article 129.3 of the Act on Statutory Auditors.

**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.

**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.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.

**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.

## 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. 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.

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

### 4. Shareholders holding significant block of shares

As at 31 December 2020, 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% |
| Inmuebles Polo SL | 431 527 | 13,23% | 431 527 | 8,88% |
| Yavin Limited / Piotr | 404 136 | 12,39% | 404 136 | 8,31% |
| Rockbridge Towarzystwo Funduszy Inwestycyjnych S.A. | 286 395 | 8,78% | 286 395 | 5,89% |
| Other shareholders | 1 088 219 | 33,37% | 1 088 219 | 22,39% |
| LSI Software S.A. (own/treasury shares) | 50 485 | 1,55% | 50 485 | 1,04% |
| **Total** | **3 260 762** | **100,00%** | **4 860 762** | **100,00%** |

### 5. Holders of any securities conferring special control powers

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

### 6. Restrictions on voting rights

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

### 7. Restrictions on the transfer of ownership rights to securities

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

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

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

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

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

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

a) review and approval of the Management Board's report on the Company's activities and the financial statements for previous financial year,

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

Matters submitted for discussion at the General Meeting should be previously submitted to the Supervisory Board for its opinion. The rights of shareholders and the manner of their execution are regulated by the Company's Articles of Association, the Rules of Procedure of the General Meeting and the Commercial Companies Code. The shareholders shall have access to the documentation concerning the General Meeting. In the announcement on the convening of the General Meeting, the Company provides the address of the website where the information concerning the General Meeting is made available. The full text of the documentation to be presented at the General Meeting, draft resolutions and all information concerning the General Meeting shall be available at the Company's registered office. A shareholder or shareholders representing at least 1/20 of the share capital may request the convening of an Extraordinary General Meeting. These shareholders may also request that certain issues be placed on the agenda of the next General Meeting. Such a request should contain a justification or a draft resolution concerning the proposed item on the agenda. This request should be submitted to the Management Board of the Company no later than 21 days before the date of the General Meeting. Each Shareholder may be heard during the General Meeting. The Chairman shall call upon a given shareholder to speak. During the discussion, each Shareholder may request that any draft resolution be amended, specifying the appropriate justification for the proposed amendment. The Chairman shall take into account the change of the draft resolution if none of the participants objects to such change. If an objection is raised, the Chairman shall put the proposed change to the vote at the General Meeting. The General Meeting adopts a resolution on accepting or rejecting the proposed change. Shareholders during the General Meeting or outside the General Meeting have the right to submit requests to be provided with information concerning the Company.

## 10. Composition, changes thereto and description of the functioning of the management and supervisory boards of LSI Software S.A. in 2020

**Management Board**
As at 31 December 2020, the composition of LSI Software S.A. Management Board was as follows:

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

On 7 July 2020, the General Meeting appointed Mr. Grzegorz Siewiera as President of the Management Board and Mr. Bartłomiej Grduszak as Vice-President of the Management Board. At the same time, Mr. Michał Czwojdziński, the previous Vice-President of the Management Board, assumed the function of a Member of the Management Board.

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

Furthermore, on 8 July 2020, Mr. Grzegorz Siewiera was appointed Vice-President of the Management Board of a subsidiary company GiP Sp. z o.o. At the same time, Mr. Bartłomiej Grduszak assumed the position of President of the Management Board of this company in place of Mr. Michał Czwojdziński, who ceased to be a member of the Management Board of GiP Sp. z o.o. on 8 July 2020.

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 makes 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 2020 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 S.A. 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 2020, the composition of the Supervisory Board was as follows:

| | | |
|---|---|---|
| Krzysztof Wolski | - | Chairman of the Supervisory Board |
| Piotr Kraska | - | Vice-Chairman of the Supervisory Board |
| Andrzej Kurkowski | - | Member of the Supervisory Board |
| Maciej Węgierski | - | Member of the Supervisory Board |
| Jolanta Drelich | - | Member of the Supervisory Board |

On 25 June 2020, Mr. Grzegorz Siewiera resigned from the position of Chairman of the Supervisory Board of LSI Software S.A. In turn, on 7 July 2020, the General Meeting appointed Mrs. Jolanta Drelich as a new Member of the Supervisory Board.

In the period from 31.12.2020 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. The Audit Committee held four meetings in 2020 on the dates of the Supervisory Board meetings.

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

As at 31 December 2020 the composition of the Supervisory Board's Audit Commitee was as follows:

| | | |
|---|---|---|
| Piotr Kraska | - | Chairman of the Audit Committee |
| Krzysztof Wolski | - | Member of the Audit Committee |
| Andrzej Kurkowski | - | Member of the Audit Committee |
| Jolanta Drelich | - | Member of the Audit Committee |
| Maciej Węgierski | - | Member of the Audit Committee |

In 2020, there were changes to the composition of the Audit Committee. On 25 June 2020, Mr. Grzegorz Siewiera resigned from his position as Member of the Audit Committee of LSI Software S.A. Then, on 17 September 2020, the Supervisory Board appointed Mrs. Jolanta Drelich to the Audit Committee as a Member of the Audit Committee. 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. 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.

In 2020, the audit firm performing the audit of the Parent 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 2020

There were no changes in the composition of management and supervisory bodies of LSI Software S.A. after 31 December 2020.

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

Pursuant to Par. 15 of the Articles of Association of LSI Software SA, the term of office of the Management Board is five years and it is a joint term of office. The current Management Board's term of office began on 30 June 2016 and will expire on 30 June 2021. Members of the Management Board are appointed and dismissed by the General Meeting of Shareholders. Re-appointment of the same person as a member of the Management Board is permissible.
The Management Board of LSI Software S.A. manages all the operations of the Company and represents the Company in court and out of court, manages the Company's assets and affairs, is responsible for proper accounting of the Company and strictly observes the provisions of the Commercial Companies Code, the Company's Articles of Association, resolutions adopted by the General Meeting of Shareholders and the Supervisory Board. The Management Board makes its decisions in the form of resolutions. Each Member of the Management Board, Proxy and attorney-in-fact acting within the limits of his empowerment, shall be entitled to perform legal actions on behalf of the Company.

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

# VII. Other information

### 1. Changes in the structure of the Group after 31 December 2020

The structure of the Group remained unchanged after 31 December 2020.

### 2. Changes in the composition of management and supervisory boards after 31 December 2020

There were no changes in the composition of the Management and Supervisory Boards after 31 December 2020.

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

As at 31 December 2020 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.

### 4. Information on major developments in research and development

In 2020, total expenditures incurred by LSI Software S.A. on research and development operations amounted to PLN 7,583 thousand. In the reporting period, the Company conducted 16 projects, including 1 implemented under EU programmes. During the reporting period, 9 projects were completed and put into operation or sold. There was also 1 R&D project for a total amount of PLN 762 thousand carried out by GIP Sp. z o.o., fully financed from the company's own funds.

In 2020 LSI Software S.A. commenced 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 is 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 Parent Company. 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).

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

## 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 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Management Board | 1 | 1 |
| Administration | 11 | 11 |
| Sales Department | 33 | 37 |
| Production Division | 56 | 51 |
| Other | 51 | 49 |
| **Total** | **152** | **149** |

**Employment turnover in LSI Software S.A.**

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Number of employees recruited | 29 | 72 |
| Number of employees made redundant | 52 | 46 |
| **TOTAL** | **-23** | **26** |

**Software Average employment in LSI Software Group**

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Management Board | 1 | 1 |
| Administration | 12 | 12 |
| Sales Department | 35 | 39 |
| Production Division | 59 | 54 |
| Other | 59 | 56 |
| **Total** | **166** | **162** |

**Employment turnover in LSI Software Group**

| | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| Number of employees recruited | 33 | 78 |
| Number of employees made redundant | 58 | 48 |
| **TOTAL** | **-25** | **30** |

## 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.

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

| Remuneration paid or due for the financial year | 01.01 -31.12.2020 | 01.01 -31.12.2019 |
|---|---|---|
| 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 | 12 | 0 |
| **TOTAL** | **94** | **82** |

**Signatures of Members of the Management Board:**

*Grzegorz Siewiera*

*President of the Management Board*

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Michał Czwojdziński*

*Member of the Management Board*

*Grzegorz Strąk*

*Member of the Management Board*

**Signature of a person preparing the financial statement:**

*Bartłomiej Grduszak*

*Vice-President of the Management Board*

*Dariusz Górski*

*Chief Accountant*

**Łódź, 30 April 2021**