

**Consolidated Financial Statements  
of Asseco South Eastern Europe Group  
for the year ended 31 December 2019**

**asseco**  
SOUTH EASTERN EUROPE



Present in  
**21 countries**



**PLN 881 million**  
in sales revenues



**2,675** highly  
committed employees



**PLN 90 million**  
in net profit for  
Shareholders of  
the Parent Company

# Consolidated Financial Statements of Asseco South Eastern Europe Group

**For the year ended 31 December 2019**

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# Consolidated Financial Statements of **Asseco South Eastern Europe Group** for the year ended 31 December 2019

These consolidated financial statements have been approved for publication by the Management Board of Asseco South Eastern Europe S.A. on 24 March 2020.

## Management Board:

Piotr Jeleński	President of the Management Board
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Miljan Mališ	Member of the Management Board
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Marcin Rułnicki	Member of the Management Board
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Kostadin Slavkoski	Member of the Management Board
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## Financial Highlights

### Asseco South Eastern Europe Group

The following table presents the selected financial data of Asseco South Eastern Europe Group.

	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000	12 months ended 31 Dec. 2019 EUR'000	12 months ended 31 Dec. 2018 EUR'000
Sales revenues	881,336	670,377	204,876	157,110
Operating profit	110,200	74,482	25,617	17,456
Pre-tax profit	110,430	78,060	25,671	18,294
<b>Net profit for the reporting period</b>	<b>91,322</b>	<b>65,163</b>	<b>21,229</b>	<b>15,272</b>
<b>Net profit attributable to Shareholders of the Parent Company</b>	<b>89,989</b>	<b>64,716</b>	<b>20,919</b>	<b>15,167</b>
Net cash provided by (used in) operating activities	158,813	120,804	36,918	28,312
Net cash provided by (used in) investing activities	(103,118)	(43,288)	(23,971)	(10,145)
Net cash provided by (used in) financing activities	(24,910)	(27,651)	(5,791)	(6,480)
<b>Cash and cash equivalents at the end of period</b>	<b>199,663</b>	<b>164,887</b>	<b>46,886</b>	<b>38,346</b>
Basic earnings per ordinary share for the reporting period attributable to Shareholders of the Parent Company (in PLN/EUR)	1.73	1.25	0.40	0.29
Diluted earnings per ordinary share for the reporting period attributable to Shareholders of the Parent Company (in PLN/EUR)	1.73	1.25	0.40	0.29

The selected financial data disclosed in these annual consolidated financial statements have been translated into EUR in the following way:

- items of the consolidated income statement and consolidated statement of cash flows have been translated into EUR at the arithmetic average of mid exchange rates as published by the National Bank of Poland and in effect on the last day of each month. These exchange rates were as follows:
  - in the period from 1 January 2019 to 31 December 2019: EUR 1 = PLN 4.3018
  - in the period from 1 January 2018 to 31 December 2018: EUR 1 = PLN 4.2669
- the Group's cash and cash equivalents as at the end of the reporting period and the comparable period of the previous year have been translated into EUR at the mid exchange rates as published by the National Bank of Poland. These exchange rates were as follows:
  - exchange rate effective on 31 December 2019: EUR 1 = PLN 4.2585
  - exchange rate effective on 31 December 2018: EUR 1 = PLN 4.3000

In this report, all figures are presented in thousands of Polish zlotys (PLN), unless stated otherwise.

# Consolidated Statement of Income and Other Comprehensive Income

## Asseco South Eastern Europe Group

INCOME STATEMENT		12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
	Note		
Operating revenues	<u>5.1</u>	881,336	670,377
Cost of sales	<u>5.2</u>	(663,553)	(508,836)
Allowances for trade receivables	<u>5.2</u>	(3,032)	(544)
<b>Gross profit on sales</b>		<b>214,751</b>	<b>160,997</b>
Selling costs	<u>5.2</u>	(53,039)	(46,611)
General and administrative expenses	<u>5.2</u>	(53,781)	(39,471)
<b>Net profit on sales</b>		<b>107,931</b>	<b>74,915</b>
Other operating income	<u>5.3</u>	4,253	1,513
Other operating expenses	<u>5.3</u>	(1,923)	(1,644)
Share of profits of associates and joint ventures		(61)	(302)
<b>Operating profit</b>		<b>110,200</b>	<b>74,482</b>
Financial income	<u>5.4</u>	6,032	6,038
Financial expenses	<u>5.4</u>	(5,712)	(2,460)
Impairment losses on financial instruments		(90)	-
<b>Pre-tax profit</b>		<b>110,430</b>	<b>78,060</b>
Corporate income tax (current and deferred tax expense)	<u>5.5</u>	(19,108)	(12,897)
<b>Net profit for the reporting period</b>		<b>91,322</b>	<b>65,163</b>
<i>Attributable to:</i>			
<b>Shareholders of the Parent Company</b>		<b>89,989</b>	<b>64,716</b>
Non-controlling interests		1,333	447
Basic and diluted consolidated earnings per share for the reporting period, attributable to shareholders of the Parent Company (in PLN)			
	<u>5.6</u>	1.73	1.25
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Net profit for the reporting period</b>		<b>91,322</b>	<b>65,163</b>
<b>Components that may be reclassified to profit or loss</b>		<b>(15,883)</b>	<b>5,485</b>
Net gain/loss on valuation of financial assets		9	-
Foreign exchange differences on translation of foreign operations		(15,892)	5,485
<b>Components that will not be reclassified to profit or loss</b>		<b>-</b>	<b>-</b>
Actuarial gains/losses		-	-
<b>Total other comprehensive income</b>		<b>(15,883)</b>	<b>5,485</b>
<b>TOTAL COMPREHENSIVE INCOME attributable to:</b>		<b>75,439</b>	<b>70,648</b>
<b>Shareholders of the Parent Company</b>		<b>74,221</b>	<b>70,177</b>
Non-controlling interests		1,218	471

## Consolidated Statement of Financial Position

### Asseco South Eastern Europe Group

		31 Dec. 2019	31 Dec. 2018
ASSETS	Note	PLN'000	PLN'000
Non-current assets			
Property, plant and equipment	6.1	147,061	128,692
Intangible assets	6.2	14,120	10,854
Right-of-use assets	6.3	65,055	-
Investment property		596	632
Goodwill	6.4	539,665	481,089
Investments accounted for using the equity method		-	111
Other receivables	6.8	724	186
Deferred tax assets	5.5	8,978	4,785
Other financial assets	6.6	4,670	588
Prepayments and accrued income	6.7	614	634
		781,483	627,571
Current assets			
Inventories	6.9	37,215	17,006
Prepayments and accrued income	6.7	21,746	15,264
Trade receivables	6.8	164,530	132,120
Contract assets	6.8	28,050	19,022
Corporate income tax receivable	6.8	1,364	2,227
Receivables from the state and local budgets	6.8	2,008	1,355
Other receivables	6.8	2,889	1,765
Other non-financial assets		10,247	4,588
Other financial assets	6.6	572	3,761
Cash and bank deposits	6.10	199,663	164,887
		468,284	361,995
TOTAL ASSETS		1,249,767	989,566



## Consolidated Statement of Financial Position

### Asseco South Eastern Europe Group

		31 Dec. 2019	31 Dec. 2018
EQUITY AND LIABILITIES	Note	PLN'000	PLN'000
Equity (attributable to shareholders of the Parent Company)			
Share capital	6.11	518,942	518,942
Share premium	6.11	38,825	38,825
Transactions with non-controlling interests		(9,186)	(1,887)
Other capitals		(1,319)	3,153
Foreign exchange differences on translation of foreign operations		(119,586)	(103,809)
Retained earnings		370,476	308,201
		798,152	763,425
Non-controlling interests	6.12	2,051	1,664
Total equity		800,203	765,089
Non-current liabilities			
Bank loans and borrowings	6.14	43,255	17,223
Lease liabilities	6.13	47,489	1,055
Other financial liabilities	6.15	28,557	-
Deferred tax liabilities	5.5	1,344	1,599
Provisions	6.18	2,013	1,982
Contract liabilities	6.17	804	236
Other liabilities	6.16	494	-
		123,956	22,095
Current liabilities			
Bank loans and borrowings	6.14	49,742	30,836
Lease liabilities	6.13	18,923	820
Other financial liabilities	6.15	13,879	9
Trade payables	6.16	109,977	78,362
Contract liabilities	6.17	58,707	37,166
Corporate income tax payable	6.16	5,738	3,684
Liabilities to the state and local budgets	6.16	24,231	19,333
Other liabilities	6.16	19,247	16,098
Provisions	6.18	2,847	2,713
Accruals	6.19	22,317	13,361
		325,608	202,382
TOTAL LIABILITIES		449,564	224,477
TOTAL EQUITY AND LIABILITIES		1,249,767	989,566

## Consolidated Statement of Changes in Equity

### Asseco South Eastern Europe Group

	Note	Share capital	Share premium	Transactions with non-controlling interests	Other capitals	Foreign exchange differences on translation of foreign operations	Retained earnings and current net profit	Equity attributable to shareholders of the Parent Company	Non-controlling interests	Total equity
		PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
<b>As at 1 January 2019</b>		<b>518,942</b>	<b>38,825</b>	<b>(1,887)</b>	<b>3,153</b>	<b>(103,809)</b>	<b>308,201</b>	<b>763,425</b>	<b>1,664</b>	<b>765,089</b>
Impact of the adoption of IFRS 16		-	-	-	-	-	(729)	(729)	-	(729)
<b>As at 1 January 2019 (including impact of the adoption of IFRS 16)</b>		<b>518,942</b>	<b>38,825</b>	<b>(1,887)</b>	<b>3,153</b>	<b>(103,809)</b>	<b>307,472</b>	<b>762,696</b>	<b>1,664</b>	<b>764,360</b>
Net profit for the reporting period		-	-	-	-	-	89,989	89,989	1,333	91,322
Other comprehensive income for the reporting period		-	-	-	9	(15,777)	-	(15,768)	(115)	(15,883)
<b>Total comprehensive income for the reporting period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>(15,777)</b>	<b>89,989</b>	<b>74,221</b>	<b>1,218</b>	<b>75,439</b>
Share-based payment transactions with employees		-	-	-	2,094	-	-	2,094	-	2,094
Obtaining control over subsidiaries	6.4	-	-	-	(6,575)	-	-	(6,575)	8,022	1,447
Increase of share capital in subsidiaries		-	-	-	-	-	-	-	1,119	1,119
Transactions with non-controlling interests (including contingent financial liabilities to non-controlling shareholders (put options))		-	-	(7,299)	-	-	-	(7,299)	(9,520)	(16,819)
Dividend for the year 2018	5.7	-	-	-	-	-	(26,985)	(26,985)	(452)	(27,437)
<b>As at 31 December 2019</b>		<b>518,942</b>	<b>38,825</b>	<b>(9,186)</b>	<b>(1,319)</b>	<b>(119,586)</b>	<b>370,476</b>	<b>798,152</b>	<b>2,051</b>	<b>800,203</b>

## Consolidated Statement of Changes in Equity

### Asseco South Eastern Europe Group

Note	Share capital	Share premium	Transactions with non-controlling interests	Other capitals	Foreign exchange differences on translation of foreign operations	Retained earnings and current net profit	Equity attributable to shareholders of the Parent Company	Non-controlling interests	Total equity
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
<b>As at 1 January 2018</b>	<b>518,942</b>	<b>38,825</b>	<b>(1,887)</b>	<b>660</b>	<b>(109,270)</b>	<b>270,470</b>	<b>717,740</b>	<b>1,572</b>	<b>719,312</b>
Net profit for the reporting period	-	-	-	-	-	64,716	64,716	447	65,163
Other comprehensive income for the reporting period	-	-	-	-	5,461	-	5,461	24	5,485
<b>Total comprehensive income for the reporting period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,461</b>	<b>64,716</b>	<b>70,177</b>	<b>471</b>	<b>70,648</b>
Share-based payment transactions with employees	-	-	-	2,493	-	-	2,493	-	2,493
Dividend for the year 2017	-	-	-	-	-	(26,985)	(26,985)	(379)	(27,364)
<b>As at 31 December 2018</b>	<b>518,942</b>	<b>38,825</b>	<b>(1,887)</b>	<b>3,153</b>	<b>(103,809)</b>	<b>308,201</b>	<b>763,425</b>	<b>1,664</b>	<b>765,089</b>

# Consolidated Statement of Cash Flows

## Asseco South Eastern Europe Group

	Nota	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
<b>Cash flows – operating activities</b>			
Pre-tax profit		110,430	78,060
<b>Total adjustments:</b>		<b>65,381</b>	<b>59,178</b>
Depreciation and amortization	5.2	65,687	45,632
Change in inventories		(7,519)	9,846
Change in receivables and other non-financial assets		(21,589)	(17,121)
Change in liabilities, accruals and provisions		21,064	12,424
Interest income/expenses		3,316	1,036
Gain/loss on foreign exchange differences		(122)	(1,057)
Gain/loss on financial assets (valuation, disposal, etc.)		(33)	589
Other financial income/expenses		(623)	-
Gain/loss on sale, disposal and impairment of property, plant and equipment, and intangible assets		3,035	5,050
Costs of share-based payment transactions with employees		2,094	2,493
Other adjustments to pre-tax profit		71	286
<b>Cash provided by (used in) operating activities</b>		<b>175,811</b>	<b>137,238</b>
Corporate income tax paid		(16,998)	(16,434)
<b>Net cash provided by (used in) operating activities</b>		<b>158,813</b>	<b>120,804</b>
<b>Cash flows – investing activities</b>			
<i>Inflows</i>			
Disposal of property, plant and equipment, and intangible assets		1,401	988
Disposal/settlement of financial assets carried at fair value through profit or loss		140	277
Disposal of investments in other debt securities carried at amortized cost (cash deposits)		3,500	2,802
Loans collected		225	8
Interest received		41	80
Dividends received		1	1
<i>Outflows</i>			
Acquisition of property, plant and equipment, and intangible assets (including R&D expenditures)	7.1	(55,616)	(40,496)
Expenditures for the acquisition of subsidiaries and associates, decreased by cash and cash equivalents in subsidiaries acquired	7.1	(45,388)	-
Acquisition/settlement of financial assets carried at fair value through profit or loss		(46)	(158)
Acquisition of investments in other debt securities carried at amortized cost (cash deposits)		(4,549)	(6,776)
Loans granted		(2,827)	-
Other cash flows from investing activities		-	(14)
<b>Net cash provided by (used in) investing activities</b>		<b>(103,118)</b>	<b>(43,288)</b>
<b>Cash flows – financing activities</b>			
<i>Inflows</i>			
Proceeds from non-controlling shareholders due to issuance of shares in subsidiaries		1,119	-
Proceeds from bank loans and borrowings	7.2	54,477	16,024
<i>Outflows</i>			
Repayments of bank loans and borrowings	7.2	(32,606)	(13,934)
Payments of lease liabilities	7.2	(17,230)	(1,367)
Interest paid	7.2	(3,233)	(1,010)
Dividends paid out by the Parent Company	7.2	(26,985)	(26,985)
Dividends paid out to non-controlling shareholders	7.2	(452)	(379)
<b>Net cash provided by (used in) financing activities</b>		<b>(24,910)</b>	<b>(27,651)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>30,785</b>	<b>49,865</b>
Net foreign exchange differences		(4,963)	(588)
Net cash and cash equivalents as at 1 January		164,839	115,562
<b>Net cash and cash equivalents as at 31 December</b>	6.10	<b>190,661</b>	<b>164,839</b>

# Supplementary Information to the Consolidated Financial Statements

## I. General information

Asseco South Eastern Europe Group ("ASEE Group", "Group", "ASEE") is a group of companies, the Parent Company of which is Asseco South Eastern Europe S.A. ("Parent Company", "ASEE S.A.", "Company", "Issuer") seated at 14 Olchowa St., Rzeszów, Poland.

General information on the Parent Company	
<b>Name</b>	Asseco South Eastern Europe S.A.
<b>Seat</b>	Rzeszów, 14 Olchowa St.
<b>National Court Register number</b>	0000284571
<b>REGON (statistical ID number)</b>	180248803
<b>Tax Identification Number</b>	813-351-36-07
<b>Core business</b>	Activities of head offices and holdings, production of software

The Parent Company Asseco South Eastern Europe S.A. based in Rzeszów, Poland, was established on 10 April 2007 as a joint stock company called Asseco Adria S.A. On 11 July 2007, the Company was entered in the register of entrepreneurs maintained by the District Court in Rzeszów, XII Commercial Department of the National Court Register, under the number KRS 0000284571. The Parent Company has been assigned the statistical number REGON 180248803. On 11 February 2008, the Parent Company's corporate name was changed from Asseco Adria S.A. to Asseco South Eastern Europe S.A.

Since 28 October 2009, the Company's shares have been listed on the main market of the Warsaw Stock Exchange S.A.

ASEE S.A. is the Parent Company of Asseco South Eastern Europe Group. The Parent Company shall operate within the territory of the Republic of Poland as well as abroad. The time of duration of both the Parent Company and the entities incorporated in the Group is indefinite.

Asseco South Eastern Europe Group is engaged in the sale of its own and third-party software as well as in the provision of implementation, integration and outsourcing services. The Group is a provider of IT solutions, authentication solutions, online payment settlement systems, while it is also engaged in the sale, outsourcing and maintenance of ATMs and POS terminals, and provides integration and implementation services for IT systems and hardware. The Group conducts business operations in the markets of Poland, South Eastern Europe, Iberian Peninsula, Turkey, as well as in Colombia, Peru, and Dominican Republic.

The scope of Asseco South Eastern Europe Group's core business broken down by relevant segments is described in section IV of these consolidated financial statements.

These consolidated financial statements cover the year ended 31 December 2019 and contain comparable data for the year ended 31 December 2018.

## **II. Basis for the preparation of financial statements**

### **2.1. Basis for preparation**

These consolidated financial statements have been prepared in accordance with the historical cost convention, except for financial assets carried at fair value through profit or loss or through other comprehensive income, financial assets carried at amortized cost, as well as financial liabilities carried at fair value through profit or loss.

These consolidated financial statements have been prepared on a going-concern basis, assuming the Group will continue its business activities in the foreseeable future. Till the date of preparing these consolidated financial statements, we have not observed any circumstances that would threaten the Group's ability to continue as a going concern.

The scope of these consolidated financial statements is in accordance with the Regulation of the Minister of Finance of 29 March 2018 regarding current and periodic information to be published by issuers of securities and conditions for recognizing as equivalent the information required by laws of non-EU member states (consolidated text: Journal of Laws of 2018, item 757) ("Regulation"), and covers the annual reporting period from 1 January to 31 December 2019, as well as the comparable period from 1 January to 31 December 2018.

### **2.2. Compliance statement**

These consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU IFRS").

IFRS include standards and interpretations accepted by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

As at the date of approving publication of these financial statements, given the ongoing process of implementing IFRS in the European Union as well as the Group's operations, in the scope of accounting policies applied by the Group there is no difference between IFRS that came into force and IFRS endorsed by the EU.

Some of the Group companies maintain their accounting books in accordance with the accounting policies set forth in their respective local regulations. The consolidated financial statements include adjustments not disclosed in the accounting books of the Group's entities, which were introduced to adjust the financial statements of those entities to IFRS.

### **2.3. Functional currency and presentation currency**

The presentation currency of these consolidated financial statements is the Polish zloty (PLN) and all figures are presented in thousands of PLN (PLN'000), unless stated otherwise. Any inaccuracies in totals, amounting to PLN 1 thousand, are due to the adopted rounding of numbers.

The functional currency applied by the Parent Company and, at the same time, the presentation currency used in these consolidated financial statements is the Polish zloty (PLN). Functional currencies applied by our subsidiaries consolidated in these financial statements are the currencies of primary business environments in which they operate. For consolidation purposes, financial statements of our foreign subsidiaries are translated into PLN using the respective currency exchange rates as quoted by the National Bank of Poland at the end of the reporting period in case of the statement of financial position, or using the arithmetic average of such exchange rates as published by the National Bank of Poland and effective on the last day of each month during the reporting period in case of the statement of comprehensive income as well as the statement of cash flows. The effects of such conversion are recognized in equity as 'Foreign exchange differences on translation of foreign operations'.

### **2.4. Professional judgement and estimates**

Preparation of consolidated financial statements in accordance with IFRS requires making estimates and assumptions which have an impact on the data disclosed in such financial statements. Although the adopted assumptions and estimates have been based on the Group's management best knowledge on the current activities and occurrences, the actual results may differ from those anticipated.

In relevant explanatory notes, we disclosed the main areas which in the process of applying the accounting policies were subject to accounting estimates and professional judgement made by our management, and whose estimates, if changed, could significantly affect the Group's financial data to be presented in these notes in the future.

In the period of 12 months ended 31 December 2019, our approach to making estimates was not subject to any substantial modification in relation to the comparable period of 2018.

## 2.5. Accounting policies applied

The table below provides a list of selected accounting policies along with explanatory notes in which they have been presented.

Selected accounting policies	Note	Page number
Sales revenues	5.1	25
Operating costs	5.2	29
Other operating activities	5.3	32
Financial income and expenses	5.4	32
Corporate income tax	5.5	33
Earnings per share	5.6	35
Property, plant and equipment	6.1	36
Intangible assets	6.2	38
Right-of-use assets	6.3	41
Goodwill	6.4	42
Impairment testing	6.5	48
Other financial assets	6.6	50
Prepayments and accrued income	6.7	52
Receivables and contract assets	6.8	53
Inventories	6.9	56
Cash and cash equivalents	6.10	56
Share capital	6.11	57
Lease liabilities	6.13	57
Bank loans and borrowings	6.14	60
Other financial liabilities	6.15	62
Trade payables and other liabilities	6.16	64
Contract liabilities	6.17	65
Provisions	6.18	66
Accruals	6.19	68

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed when preparing the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of a new accounting standard, namely IFRS 16 'Leases', whose impact on these consolidated financial statements has been described below.

### i. IFRS 16 – first-time adoption

ASEE Group has implemented IFRS 16 'Leases' as of 1 January 2019 in line with the transition guidance provided in the standard. The impact of adopting this standard on the Group's consolidated financial data has been presented below in this report.

The Group has applied IFRS 16 retrospectively by recognizing the cumulative effect of initial application of this standard as an adjustment to the opening balance of retained earnings as at 1 January 2019. In accordance with paragraph C8(b) of IFRS 16, the Group has measured right-of-use assets for individual lease contracts at either their carrying amount, as if IFRS 16 had been applied since the lease commencement date, or at an amount equal to the lease liability at the date of initial application of the standard, this is as at 1 January 2019.

As at 31 December 2018, ASEE Group was party to contracts that were classified in accordance with IAS 17 either as operating leases including contracts for rental of office buildings (liabilities from such contracts were disclosed as off-balance-sheet liabilities), or as finance leases.

The largest impact on these consolidated financial statements was exerted by the remeasurement of contracts that were considered as operating leases until 31 December 2018, including primarily contracts for rental of office buildings. However, the Group has not remeasured any contracts for rental of IT hardware where rented equipment is considered to be of low value. In the contract remeasurement process, the Group has applied the incremental borrowing rate calculated as the sum of the margin on an investment loan adequately secured with leased assets (respectively for each of the Group's companies), and the rate quoted for IRS instruments or the interest rate on bonds in the currency in which the lease contract is made. Both the margin and IRS rate/bond interest rate have been selected to match the lease terms.

***Practical expedients permitted by IFRS 16 used at the transition date***

- The Group has not applied IFRS 16 to contracts that were previously identified as arrangements containing a lease in accordance with IAS 17 and IFRIC 4;
- The Group has applied a single discount rate to a portfolio of leases with similar characteristics (i.e. contracts with a similar lease term, concluded in the same currency, and for a similar class of underlying asset);
- Operating lease contracts for which the remaining lease term shall end within 12 months from 1 January 2019 have been treated as short-term leases and thus their recognition in the financial statements has remained unchanged;
- Operating lease contracts where the underlying asset has a low value (e.g. office equipment, small IT equipment) have not been reassessed and their recognition has remained unchanged;
- The Group has used hindsight in determining the lease term (e.g. if the contract contained an option to extend or terminate the lease);
- The Group has excluded initial direct costs from the measurement of right-of-use assets at the date of initial application;
- The Group has not separated lease components and non-lease components.

***Impact of the adoption of IFRS 16 as at 1 January 2019***

The table below presents the impact of the adoption of IFRS 16 on the Group's equity as at 1 January 2019. The actual impact presented in the table is different from the expected impact that was disclosed in the consolidated financial statements for the year ended 31 December 2018, because the final judgment made by the managements of ASEE Group was changed, especially as regards options to extend certain contracts.

<b>Impact of IFRS 16 on the statement of financial position of the Group</b>	<b>1 Jan. 2019 PLN'000</b>
<b>Assets</b>	<b>33,292</b>
Right-of-use assets	33,154
Deferred tax assets	138
<b>Liabilities</b>	<b>34,021</b>
Lease liabilities	34,694
- long-term	25,056
- short-term	9,638
Deferred income and other liabilities	(673)
<b>Net impact on equity, of which:</b>	<b>(729)</b>
Retained earnings	(729)
Non-controlling interests	-

As mentioned in the previous section, the above impact is related to rentals of office space by the Group that used to be recognized as operating leases in accordance with IAS 17. Due to the fact that almost all rental agreements were concluded for periods longer than 12 months, the Group appropriately remeasured the related liabilities that used to be disclosed as off-balance-sheet liabilities and reclassified them as lease liabilities using the incremental borrowing rate. The impact on retained earnings resulted from the remeasurement of some contracts as if IFRS 16 was effective since their commencement, which is tantamount



to the recognition of interest expenses accrued in previous years and accumulated depreciation recognized until 1 January 2019 in the balance of retained earnings.

The table below presents the reconciliation of lease liabilities under IAS 17 disclosed as at 31 December 2018 with lease liabilities estimated in accordance with IFRS 16 as at 1 January 2019:

	Lease liabilities PLN'000
<b>Finance lease liabilities as at 31 December 2018 (IAS 17)</b>	<b>1,875</b>
<b>Liabilities (and their changes) not disclosed in the statement of financial position as at 31 December 2018, of which:</b>	<b>34,694</b>
Operating lease liabilities as at 31 December 2018 (IAS 17)	38,260
Discount calculated using the incremental borrowing rate and changes in the Group's estimates concerning the options to extend or terminate rental contracts that used to be classified as operating leases	(2,085)
Short-term leases (practical expedient allowing not to recognize liabilities as at 1 January 2019)	(1,377)
Leases of low-value assets (practical expedient allowing not to recognize liabilities as at 1 January 2019)	(104)
<b>Lease liabilities as at 1 January 2019 (IFRS 16)</b>	<b>36,569</b>

#### ***Impact of the adoption of IFRS 16 on the income statement for the year 2019***

The table below presents the impact of applying IFRS 16 on the income statement of ASEE Group for the year ended 31 December 2019.

	Year ended 31 Dec. 2019 PLN'000
<b>Impact of IFRS 16 on the Group's income statement</b>	
Rental costs of leased assets	16,792
Depreciation of right-of-use assets	(15,493)
Gain / Loss on modification of contracts	25
<b>Operating profit</b>	<b>1,324</b>
<b>EBITDA</b>	<b>16,817</b>
Interest	(1,791)
<b>Pre-tax profit (loss)</b>	<b>(467)</b>

#### ***ii. Other amendments to the International Financial Reporting Standards effective from 1 January 2019***

- Interpretation IFRIC 23 'Uncertainty over Income Tax Treatments';
- Amendments to IFRS 9 'Prepayment Features with Negative Compensation';
- Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement';
- Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures';
- Annual Improvements to IFRSs: 2015-2017 Cycle:
  - ✓ IFRS 3 'Business Combinations' – in the scope of multi-stage acquisitions
  - ✓ IFRS 11 'Joint Arrangements' – in the scope of obtaining joint control of a joint operation
  - ✓ IAS 12 'Income Taxes' – in the scope of income tax consequences of dividends
  - ✓ IAS 23 'Borrowing Costs'.

These amendments have no significant impact on the consolidated financial statements of the Group.

The Group did not decide on early adoption of any standard, interpretation or amendment which has been published but has not yet become effective.

## 2.6. New standards and interpretations published but not in force yet

The following standards and interpretations were issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC), but have not yet come into force:

- *'Amendments to References to the Conceptual Framework in International Financial Reporting Standards' (issued on 29 March 2018) – effective for annual periods beginning on or after 1 January 2020;*
- Amendments to IAS 1 and IAS 8 'Definition of Materiality' (issued on 31 October 2018) – effective for annual periods beginning on or after 1 January 2020;
- Amendments to IFRS 9, IAS 39 and IFRS 17 'Interest Rate Benchmark Reform' (issued on 26 September 2019) – effective for annual periods beginning on or after 1 January 2020;
- IFRS 17 'Insurance Contracts' (issued on 18 May 2017) – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2021;
- Amendments to IFRS 3 'Business Combinations' (issued on 22 October 2018) – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2020;
- Amendments to IAS 1 'Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current' (issued on 23 January 2020) – not yet endorsed by the EU till the date of approval of these financial statements – the effective date of these amendments has not yet been determined;
- IFRS 14 'Regulatory Deferral Accounts' (issued on 30 January 2014) – the European Commission has decided not to initiate the process of endorsement of this standard until the release of its final version – not yet endorsed by the EU till the date of approval of these financial statements – effective for annual periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture' (issued on 11 September 2014) – work for the endorsement of these amendments has been postponed by the EU – the effective date of these amendments has been deferred indefinitely by the IASB.

The specified effective dates have been set forth in the standards published by the International Accounting Standards Board. The actual dates of adopting these standards in the European Union may differ from those set forth in the standards and they shall be announced once they are approved for application by the European Union.

The Group did not decide on early adoption of any standard, interpretation or amendment which has been published but has not yet become effective.

The Group is currently conducting an analysis of how the above-mentioned amendments are going to impact its financial statements.

## 2.7. Changes in the presentation methods applied

In the reporting period, we have changed the presentation of advance payments made for deliveries, from other receivables to other non-financial assets. As at the end of 2018, such advance payments amounted to PLN 4,588 thousand. Apart from this modification, the applied methods of presentation remained unchanged.

## 2.8. Corrections of material errors

In the reporting period, no events occurred that would require making corrections of any misstatements.

## 2.9. Changes in the comparable data

In the reporting period, the comparable data were not subject to any restatements.

### III. Organization and changes in the structure of Asseco South Eastern Europe Group, including the entities subject to consolidation

#### *Selected accounting policies*

##### **Consolidation rules**

*These consolidated financial statements of ASEE Group encompass assets, liabilities and equity, revenues and costs, as well as cash flows of the Parent Company – ASEE S.A. and entities remaining under its control (subsidiaries).*

*Annual financial statements of our subsidiaries, after being adjusted to comply with IFRS, are prepared for the same reporting period as adopted by the Parent Company and using consistent accounting treatment of similar transactions and economic activities. Any discrepancies in the applied accounting policies are eliminated by making appropriate adjustments.*

*All significant outstanding settlements and transactions between the Group companies, including unrealized profits resulting from transactions within the Group, have been fully eliminated. All unrealized losses are eliminated as well, except for impairment losses.*

*Subsidiaries are subject to consolidation from the date the Group obtains control over such entities until such control ceases. The Parent Company controls a subsidiary only when it: (i) has power over a given entity, (ii) is exposed, or has rights, to variable returns from its involvement with a given entity, and (iii) has the ability to use power over a given entity to affect the amount of generated returns.*

*In a situation when the Group holds less than a majority of voting rights in a given entity, but it is sufficient to unilaterally direct the relevant activities of such entity, then the control is exercised.*

*Subsidiaries are consolidated for the period in which they were controlled by the Group (from the beginning of such control to its end). Should the Group lose control over a subsidiary company, the consolidated financial statements shall include the results of such subsidiary for the part of the year during which it was controlled by the Group. Acquisitions of subsidiaries are accounted for using the full consolidation method.*

*Any changes in equity interest / voting rights in a subsidiary that do not result in a loss of control are accounted for as capital transactions. In such events, in order to reflect changes in the ownership of a respective subsidiary, the Group shall adjust the carrying value of controlling interests and non-controlling interests. Any differences between the change in non-controlling interests and the fair value of consideration paid or received are recognized directly in equity (transactions with non-controlling interests) and attributed to the owners of the Parent Company.*

##### **Combinations of businesses under common control**

*A business combination involving business entities under common control is a business combination whereby all of the combining business entities are ultimately controlled by the same party or parties, both before and after the business combination, and that control is not transitory.*

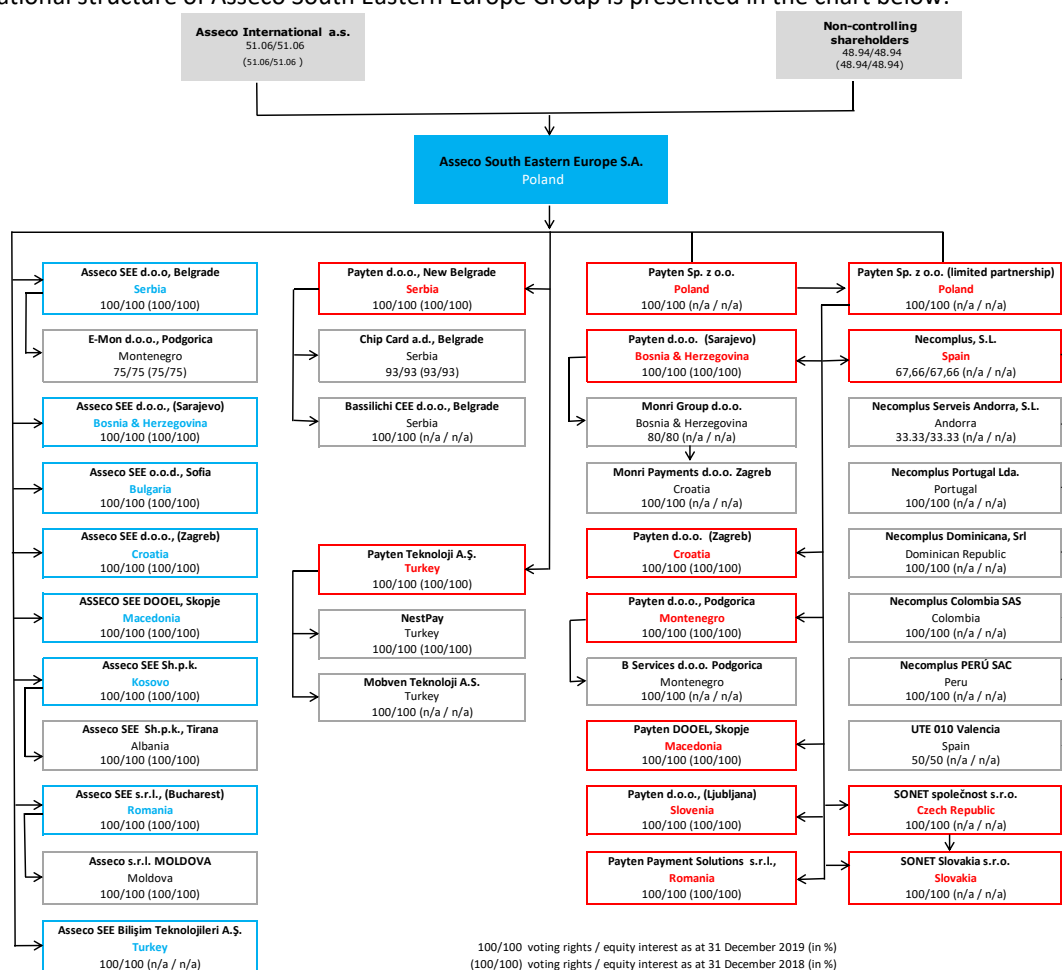
*This refers in particular to transactions such as a transfer of companies or ventures between individual companies within the Group, or a merger of the Parent Company with its subsidiary.*

*In the event of a business combination in which an investment in one subsidiary is contributed to another subsidiary or in which two subsidiaries of ASEE S.A. are combined, the carrying value of our investment in the acquiree subsidiary is only transferred at the level of standalone financial statements. Hence, a takeover of one subsidiary by another subsidiary has no impact on the Group's financial results whatsoever.*

*The effects of combinations of businesses under common control are accounted for by the Group by the pooling of interests method, assuming that:*

- *assets and liabilities of the combining business entities are measured at their carrying values as disclosed in the Group's consolidated financial statements. This means that goodwill previously recognized in the consolidated financial statements as well as any other intangible assets recognized in the merger accounting process are transferred to the standalone financial statements, and at the consolidated level there is no fair value remeasurement of net assets as at the transaction date;*
- *merger-related transaction costs are expensed in the income statement (financial expenses);*
- *mutual balances of accounts receivable/ payable are eliminated;*
- *any difference between the purchase price paid or transferred and the value of net assets acquired (at their carrying values disclosed in the consolidated financial statements) shall be recognized in equity of the acquirer (such amounts recognized in equity are not included in reserve capital, and therefore they are not distributable);*
- *the income statement presents the financial results of both combined entities from the date when their merger was effected; whereas, the results for earlier reporting periods are not restated.*

Organizational structure of Asseco South Eastern Europe Group is presented in the chart below:



During the period of 12 months ended 31 December 2019, the Group's composition changed as follows:

■ **Changing the name of ASSECO SEE TEKNOLOJİ A.Ş. to PAYTEN TEKNOLOJİ A.Ş. and company division**

On 2 January 2019, the company ASSECO SEE TEKNOLOJİ A.Ş. was renamed as PAYTEN TEKNOLOJİ A.Ş. Subsequently, PAYTEN TEKNOLOJİ A.Ş. was divided on 2 January 2019, in connection with the process of spinning off our payment services into a standalone organizational unit.

This division resulted in the creation of two separate entities, namely Payten Turkey (Payten Teknoloji A.Ş.) and ASEE Turkey (Asseco SEE Bilişim Teknolojileri A.Ş.), being engaged in the payment business and other operations, respectively.

■ **Establishing of a new company Payten Sp. z o.o.**

On 29 January 2019, we established a new company called Payten Sp. z o.o. based in Warsaw. The newly founded company is a 100% owned subsidiary of Asseco South Eastern Europe S.A.

■ **Acquisition of shares in Necomplus S.L. based in Alicante**

On 29 January 2019, the Company signed an agreement to acquire a 67.66% stake in the share capital of Necomplus S.L. based in Alicante, Spain ("Necomplus").

Concurrently, ASEE S.A. signed an agreement with the shareholders of Necomplus, based on the existing agreement concluded by the seller, among others providing for a put option reserved for minority shareholders.

Necomplus conducts business operations in Spain, Portugal, Peru, Colombia, Andorra, and in the Dominican Republic. The company is mainly engaged in installation and maintenance of POS terminals, as well as in BPO/call center services. Necomplus has been a member of the capital group of Asseco Poland since 2010. The said shares were sold by Asseco Western Europe S.A., a subsidiary of Asseco Poland S.A.

The goal of this acquisition is to further develop the payment services business within the target organizational structure called Payten.

- ***Establishing of a new company Payten Sp. z o.o. (limited partnership)***

On 20 March 2019, we registered a new company called Payten Sp. z o.o. sp.k. based in Warsaw. 99% of shares in this company are held by ASEE S.A., while a 1% stake is held by Payten Sp. z o.o.

- ***Acquisition of shares in Multicard d.o.o., Belgrade***

On 17 April 2019, Payten Serbia signed an agreement to purchase a 36.30% stake in the share capital of Multicard. As a result of this transaction, Payten Serbia obtained control over Multicard and became its sole shareholder.

- ***Transfer of shares in Payten and Necomplus companies***

On 28 June 2019, ASEE S.A. made a non-cash contribution to Payten Sp. z o.o. sp.k. of shares in the following companies of Payten Group:

- Payten B&H,
- Payten Croatia,
- Payten Montenegro,
- Payten Macedonia,
- Payten Romania,
- Payten Slovenia,
- Necomplus.

This transaction consisted in making a contribution of our investments in several subsidiaries to another subsidiary company of ASEE S.A. and therefore it had no impact on the financial position and financial results of the Group.

- ***Acquisition of shares in Basilichi CEE d.o.o. Belgrade***

On 30 July 2019, Payten d.o.o. Belgrade purchased 100% of shares in the company Basilichi CEE d.o.o. Belgrade.

- ***Acquisition of shares in B Services d.o.o. Podgorica***

On 31 July 2019, Payten d.o.o. Podgorica signed an agreement to acquire 100% of shares in the company B Services d.o.o. Podgorica.

- ***Acquisition of shares in Mobven Teknoloji A.S.***

On 9 August 2019, Payten Teknoloji A.S. signed an agreement to acquire 100% of shares in the company Mobven Teknoloji A.S. based in Istanbul. ASEE Group obtained control over Mobven company on 3 September 2019 upon satisfying all the conditions precedent.

- ***Acquisition of shares in Sonet spol. s.r.o. and Sonet Slovakia s.r.o.***

On 5 September 2019, Payten Sp. z o.o. sp.k. based in Warsaw signed an agreement to acquire 100% of shares in the company Sonet spol. s.r.o. based in Brno, as well as 50% of shares in the company Sonet Slovakia s.r.o. based in Bratislava, in which the remaining 50% stake is held by Sonet spol. s.r.o. based in Brno.

- ***Merger of Payten d.o.o. Belgrade with Multicard d.o.o.***

On 1 October 2019, Payten d.o.o. Beograd (the taking-over company) merged with Multicard d.o.o. (the acquired company).

- ***Signing an agreement to acquire shares in Monri Group d.o.o.***

On 8 October 2019, Payten d.o.o. Sarajevo concluded a conditional agreement to acquire 80% of shares in Monri Group d.o.o. The Group obtained control over Monri Group d.o.o. on 15 November 2019 upon satisfying all the conditions precedent.

## IV. Information on operating segments

According to IFRS 8, an operating segment is a separable component of the Group's business for which separate financial information is available and regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

AssecO South Eastern Europe Group has identified the following reportable segments reflecting the structure of its business operations:

- a) Banking Solutions,
- b) Payment Solutions,
- c) Dedicated Solutions (formerly Systems Integration).

### ***Banking Solutions***

The Banking Solutions segment portfolio includes the Digital Edge omnichannel solution designed to distribute banking products and services over new, alternative distribution channels and to improve business relations and communication with the customer, as well as integrated core banking systems based on the Oracle and Microsoft platforms. This segment also offers authentication security solutions, reporting systems for regulatory compliance and managerial information, as well as risk management and anti-fraud systems. The Group also offers its clients online 24x7 services and consultancy in the area of digital banking and digital transformation.

### ***Payment Solutions***

This segment provides complete payment industry solutions, for financial and non-financial institutions, supporting card and card-less transactions. The product portfolio of ASEE includes solutions for e-Commerce (NestPay®, MSU, Paratika), mobile payments (mPOS, HCE), payment card processing, as well as services related to ATMs and POS terminals. The Group delivers software, services including outsourcing and equipment, providing the highest level of expertise, maintenance and support through the entire portfolio. This segment also operates an independent network of ATMs under the brand name of MoneyGet.

### ***Dedicated Solutions***

The Group serves the financial, industry and public administration sectors with the following business lines: development of IT infrastructure, implementations and support, ensuring continuity of business processes, automation of operations, and customized software development. This segment also includes a group of proprietary solutions of ASEE. Among such solutions are LIVE contact center, BPS content management solution, as well as Fidelity asset lifecycle management solution. Furthermore, the product portfolio of the Dedicated Solutions segment includes LeaseFlex, a fully-fledged lease and asset lifecycle management solution.

The Group's financing activities as well as income taxes are monitored at the whole group level and therefore they are not allocated to individual operating segments. The Management also does not analyze assets and liabilities or cash flows in a breakdown to segments. The table below presents the key financial information reviewed by the chief operating decision maker in the Company.

Revenues from none of our clients exceeded 10% of total sales generated by the Group in the period of 12 months ended 31 December 2019.

Selected financial data for the period of 12 months ended 31 December 2019, in a breakdown to operating segments:

12 months ended 31 Dec. 2019	Banking Solutions PLN'000	Payment Solutions PLN'000	Dedicated Solutions PLN'000	Eliminations PLN'000	Total PLN'000
<b>Sales revenues:</b>	<b>209,417</b>	<b>383,126</b>	<b>327,709</b>	<b>(38,916)</b>	<b>881,336</b>
Sales to external customers	187,909	368,041	325,386	-	<b>881,336</b>
Inter/intra segment sales	21,508	15,085	2,323	(38,916)	-
<b>Gross profit on sales</b>	<b>69,842</b>	<b>97,585</b>	<b>47,324</b>	<b>-</b>	<b>214,751</b>
Selling costs	(13,629)	(20,593)	(18,817)	-	<b>(53,039)</b>
General and administrative expenses	(17,019)	(23,084)	(13,678)	-	<b>(53,781)</b>
<b>Net profit on sales</b>	<b>39,194</b>	<b>53,908</b>	<b>14,829</b>	<b>-</b>	<b>107,931</b>
Other operating activities	4	1,486	840	-	<b>2,330</b>
Share of profits of associates	-	(61)	-	-	<b>(61)</b>
<b>Operating profit</b>	<b>39,198</b>	<b>55,333</b>	<b>15,669</b>	<b>-</b>	<b>110,200</b>
<b>Goodwill</b>	<b>194,903</b>	<b>173,419</b>	<b>171,343</b>	<b>-</b>	<b>539,665</b>

12 months ended 31 Dec. 2019	Banking Solutions EUR'000	Payment Solutions EUR'000	Dedicated Solutions EUR'000	Eliminations EUR'000	Total EUR'000
<b>Sales revenues:</b>	<b>48,681</b>	<b>89,062</b>	<b>76,179</b>	<b>(9,046)</b>	<b>204,876</b>
Sales to external customers	43,681	85,555	75,640	-	<b>204,876</b>
Inter/intra segment sales	5,000	3,507	539	(9,046)	-
<b>Gross profit on sales</b>	<b>16,236</b>	<b>22,685</b>	<b>11,000</b>	<b>-</b>	<b>49,921</b>
Selling costs	(3,168)	(4,787)	(4,374)	-	<b>(12,329)</b>
General and administrative expenses	(3,956)	(5,366)	(3,180)	-	<b>(12,502)</b>
<b>Net profit on sales</b>	<b>9,112</b>	<b>12,532</b>	<b>3,446</b>	<b>-</b>	<b>25,090</b>
Other operating activities	1	345	195	-	<b>541</b>
Share of profits of associates	-	(14)	-	-	<b>(14)</b>
<b>Operating profit</b>	<b>9,113</b>	<b>12,863</b>	<b>3,641</b>	<b>-</b>	<b>25,617</b>
<b>Goodwill</b>	<b>45,768</b>	<b>40,723</b>	<b>40,236</b>	<b>-</b>	<b>126,727</b>

Selected financial data for the period of 12 months ended 31 December 2018, in a breakdown to operating segments:

12 months ended 31 Dec. 2018	Banking Solutions PLN'000	Payment Solutions PLN'000	Dedicated Solutions PLN'000	Eliminations PLN'000	Total PLN'000
<b>Sales revenues:</b>	<b>179,167</b>	<b>265,552</b>	<b>266,235</b>	<b>(40,577)</b>	<b>670,377</b>
Sales to external customers	163,227	244,661	262,489	-	<b>670,377</b>
Inter/intra segment sales	15,940	20,891	3,746	(40,577)	-
<b>Gross profit on sales</b>	<b>55,193</b>	<b>64,308</b>	<b>41,496</b>	<b>-</b>	<b>160,997</b>
Selling costs	(13,212)	(14,782)	(18,617)	-	<b>(46,611)</b>
General and administrative expenses	(15,254)	(14,770)	(9,447)	-	<b>(39,471)</b>
<b>Net profit on sales</b>	<b>26,727</b>	<b>34,756</b>	<b>13,432</b>	<b>-</b>	<b>74,915</b>
Other operating activities	103	(143)	(91)	-	<b>(131)</b>
Share of profits of associates	-	(302)	-	-	<b>(302)</b>
<b>Operating profit</b>	<b>26,830</b>	<b>34,311</b>	<b>13,341</b>	<b>-</b>	<b>74,482</b>
<b>Goodwill</b>	<b>198,983</b>	<b>106,696</b>	<b>175,410</b>	<b>-</b>	<b>481,089</b>

12 months ended 31 Dec. 2018	Banking Solutions EUR'000	Payment Solutions EUR'000	Dedicated Solutions EUR'000	Eliminations EUR'000	Total EUR'000
<b>Sales revenues:</b>	<b>41,990</b>	<b>62,235</b>	<b>62,395</b>	<b>(9,510)</b>	<b>157,110</b>
Sales to external customers	38,254	57,339	61,517	-	157,110
Inter/intra segment sales	3,736	4,896	878	(9,510)	-
<b>Gross profit on sales</b>	<b>12,935</b>	<b>15,071</b>	<b>9,725</b>	<b>-</b>	<b>37,731</b>
Selling costs	(3,096)	(3,465)	(4,363)	-	(10,924)
General and administrative expenses	(3,575)	(3,461)	(2,214)	-	(9,250)
<b>Net profit on sales</b>	<b>6,264</b>	<b>8,145</b>	<b>3,148</b>	<b>-</b>	<b>17,557</b>
Other operating activities	24	(33)	(21)	-	(30)
Share of profits of associates	-	(71)	-	-	(71)
<b>Operating profit</b>	<b>6,288</b>	<b>8,041</b>	<b>3,127</b>	<b>-</b>	<b>17,456</b>
<b>Goodwill</b>	<b>46,275</b>	<b>24,813</b>	<b>40,793</b>	<b>-</b>	<b>111,881</b>



## V. Explanatory notes to the consolidated statement of income

### 5.1. Breakdown of operating revenues

#### *Selected accounting policies*

The Group is engaged in the sale of licenses and broadly defined IT services, and distinguishes the following types of revenues:

- revenues from the sale of proprietary licenses and services,
- revenues from the sale of third-party licenses and services, and
- revenues from the sale of hardware.

#### **a) Sale of proprietary licenses and services**

The category of 'Proprietary licenses and services' includes revenues from contracts with customers under which we supply our own software and/or provide related services.

##### ▪ **Comprehensive IT projects**

A large portion of those revenues is generated from the performance of comprehensive IT projects, whereby the Group is committed to provide the customer with a functional IT system. In those situations the customer can only benefit from a functional system, being the final product that is comprised of our proprietary licenses and significant related services (for example, modifications or implementation). Under such contracts, the Group is virtually always required to provide the customer with comprehensive goods or services, including the supply of proprietary licenses and/or own modification services and/or own implementation services. This means that the so-called comprehensive IT contracts most often result in a separate performance obligation that consists in providing the customer with a functional IT system. In the case of a performance obligation that involves the provision of a functional IT system, we closely examine the promise in granting a licence under each contract. Each license is analyzed for being distinct from other goods or services promised in the contract. As a general rule, the Group considers that a commitment to sell a license under such performance obligation does not satisfy the criteria of being distinct, because the transfer of the license is only part of a larger performance obligation, and services sold together with the license present such a significant value so that it is impossible to determine whether the license itself is a predominant obligation.

Revenues from a performance obligation to provide a functional IT system are recognized over time, during the period of its development. This is because, in accordance with IFRS 15, revenues may be recognized over time of transferring control of the supplied goods/services, as long as the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date throughout the duration of the contract. In the Management's opinion, in the case of execution of comprehensive IT projects the provider cannot generate an asset with an alternative use because such systems together with the accompanying implementation services are "tailor-made". Concurrently, the analysis carried out so far showed that essentially all contracts concluded by the Group meet the criterion of ensuring an enforceable right to payment for performance completed throughout the duration of the contract. This means that revenues from comprehensive IT projects, which include the sale of proprietary licenses and own services, shall be recognized according to the percentage of completion method (based on the costs incurred so far) over time of transferring control of the sold goods/services to the customer. Relatively small IT projects, which are usually completed within one year or generate revenues that are insignificant in the Management's opinion, constitute a specific case where revenues may be recognized in the amount the Group is entitled to invoice.

##### ▪ **Sale of proprietary licenses without significant related services**

In the event the sale of a proprietary license is distinct from other significant modification of implementation services, and thereby it constitutes a separate performance obligation, the Group considers whether the promise in granting the licence is to provide the customer with either:

- ✓ a right to access the entity's intellectual property in the form in which it exists throughout the licensing period; or
- ✓ a right to use the entity's intellectual property in the form in which it exists at the time of granting the license.

The vast majority of licenses sold separately by the Group (thus representing a separate performance obligation) are intended to provide the customer with a right to use the intellectual property, which means revenues from the sale of such licenses are recognized at the point in time at which control of the licence is transferred to the customer. This is tantamount to stating that in the case of proprietary licenses sold without significant related services, regardless of the licensing period, the arising revenues are recognized on a one-off basis at the point in time of transferring control of the licence. We have also identified instances of selling licenses the nature of which is to provide a right to access the intellectual property. Those licenses are, as a rule, sold for a definite period. In accordance with IFRS 15, the Group now recognizes such revenues based on the determination whether the license provides the customer with a right to access or a right to use.

##### ▪ **Maintenance services and warranties**

The category of 'Proprietary licenses and services' also presents revenues from own maintenance services, including revenues from warranties. Such services, in principle, constitute a separate performance obligation where the customer consumes the benefits of goods/services as they are delivered by the provider, as a consequence of which revenues are recognized over time during the service performance period.

In many cases, the Group also provides a warranty for goods and services sold. Most warranties granted by the Group meet the definition of service, these are the so-called extended warranties the scope of which is broader than just an assurance to the customer that the product/service complies with agreed-upon specifications. The conclusion regarding the extended nature of a warranty is made whenever the Group contractually undertakes to repair any errors in the delivered software within a strictly specified time limit and/or when such warranty is more extensive than the minimum required by law. In the context of IFRS 15, the fact of granting an extended warranty indicates that the Group actually provides an additional service. In accordance with IFRS 15, this means the Group needs to

recognize an extended warranty as a separate performance obligation and allocate a portion of the transaction price to such service. In all cases where an extended warranty is accompanied by a maintenance service, which is even a broader category than an extended warranty itself, revenues are recognized over time because the customer consumes the benefits of such service as it is performed by the provider. If this is the case, the Group continues to allocate a portion of the transaction price to such maintenance service. Likewise, in cases where a warranty service is provided after the project completion and is not accompanied by any maintenance service, then a portion of the transaction price and analogically recognition of a portion of contract revenues will have to be deferred until the warranty service is actually fulfilled. In the case of warranties the scope of which is limited to the statutory minimum, our accounting policy remained unchanged, meaning such future and contingent obligations will be covered by provisions for warranty repairs which, if materialized, will be charged as operating costs.

**b) Sale of third-party licenses and services**

The category of 'Third-party licenses and services' includes revenues from the sale of third-party licenses as well as from the provision of services which, due to technological or legal reasons, must be carried out by subcontractors (this applies to hardware and software maintenance and outsourcing services provided by their manufacturers). Revenues from the sale of third-party licenses are as a rule accounted for as sales of goods, which means that such revenues are recognized at the point in time at which control of the licence is transferred to the customer. Concurrently, revenues from third-party services, including primarily third-party maintenance services, are recognized over time when such services are provided to the customer. Whenever the Group is involved in the sale of third-party licenses or services, we consider whether the Group acts as a principal or an agent; however, in most cases the conclusion is that the Group is the main party required to satisfy a performance obligation and therefore the resulting revenues are recognized in the gross amount of consideration.

**c) Sale of hardware**

The category of the 'Sale of hardware' includes revenues from contracts with customers for the supply of infrastructure. In this category, revenues are recognized basically at the point in time at which control of the equipment is transferred. This does not apply only to situations where hardware is not delivered separately from services provided alongside, in which case the sale of hardware is part of a performance obligation involving the supply of a comprehensive infrastructure system. However, such comprehensive projects are a rare practice in the Group as the sale of hardware is predominantly performed on a distribution basis.

In the case of contracts that contain a component of providing a service or equipment, the entity considers whether such arrangements contain a lease (i.e. whether the entity provides the right to control the use of the identified asset for a period of time in exchange for consideration). The Group has not identified any finance lease components within contracts concluded with customers.

**Variable consideration**

In accordance with IFRS 15, if a contract consideration encompasses any amount that is variable, the Group shall estimate the amount of consideration to which it will be entitled in exchange for transferring promised goods or services to the customer, and shall include a portion or the whole amount of variable consideration in the transaction price but only to the extent that it is highly probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group is party to a number of contracts which provide for penalties for non-performance or improper performance of contractual obligations. Any contractual penalties may therefore affect the consideration, which has been stated as a fixed amount in the contract, and make it subject to change due to such expected penalties. Therefore, as part of estimating the amount of consideration receivable under a contract, the Group has estimated the expected amount of consideration while taking into account the probability of paying such contractual penalties as well as other factors that might potentially affect the consideration. This causes a reduction in revenues, and not an increase in the amount of provisions and relevant costs as it was until now. Apart from contractual penalties, there are no other significant factors that may affect the amount of consideration (such as rebates or discounts), but in the event they were identified, they would also affect the amount of revenues recognized by the Group.

**Allocating the transaction price to performance obligations**

The Group allocates the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

**Significant financing component**

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the Group's company with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract is deemed to contain a significant financing component. As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at the contract inception, that the period between when a promised good or service is transferred to the customer and when the customer pays for that good or service will be one year or less.

A contract with a customer does not contain a significant financing component if, among other factors, the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to the customer, and the difference between those amounts is proportional to the reason for the difference. This usually occurs when the contractual payment terms provide protection from the other party failing to adequately complete some or all of its obligations under the contract.

## Costs of contracts with customers

The costs of obtaining a contract are those additional (incremental) costs incurred by the Group in order to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Group recognizes such costs as an asset if it expects to recover those costs. Such capitalized costs of obtaining a contract shall be amortized over a period when the Group satisfies the performance obligations arising from the contract.

As a practical expedient, the Group recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Group would have otherwise recognized is one year or less.

Costs to fulfil a contract are the costs incurred in fulfilling a contract with a customer. The Group recognizes such costs as an asset if they are not within the scope of another standard (for example, IAS 2 'Inventories', IAS 16 'Property, Plant and Equipment' or IAS 38 'Intangible Assets') and if those costs meet all of the following criteria: (i) the costs relate directly to a contract or to an anticipated contract with a customer; (ii) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered.

## Other practical expedients used by the Group

When appropriate, the Group also applies a practical expedient permitted under IFRS 15 whereby if the Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), the Group may recognize revenue in the amount it is entitled to invoice.

## Revenues other than revenues from contracts with customers (not subject to IFRS 15)

Revenues other than revenues from contracts with customers are generated by the Group primarily from outsourcing of IT hardware (e.g. ATMs, servers and POS terminals). Each time the Group determines whether all the risks and rewards incidental to the use of rented equipment have been transferred to the customer. Most often, the Group concludes that outsourcing contracts have the characteristics of operating leases.

## Estimates

As described above, the Group fulfils performance obligations, a large number of which (including those for the provision of a functional IT system) are measured using the percentage of completion method. Such valuation requires making estimates of future operating cash flows in order to measure the progress of project execution. The percentage of completion shall be measured as the relation of costs already incurred (provided such costs contribute to the progress of work) to the total costs planned, or as a portion of man-days worked out of the total work effort required. Making a valuation which results in revenue recognition each time requires the exercise of professional judgment and a significant amount of estimates.

Similarly, estimates and professional judgment are required in determining the expected amount of revenues from contracts with customers, in cases where the consideration is variable usually due to the determination of contractual penalties for delayed delivery of IT systems or performance of related services.

Estimates of revenues other than revenues from contracts with customers are related to the assessment of the nature of contracts involving the provision of assets to customers (the Group acting as a lessor). Considering the fact that the lease term is in most cases shorter than the substantial useful life of leased assets, and that significant risks and rewards incidental to ownership of leased assets have not been transferred to the Group's customers, the Group has concluded that these contracts are operating leases.

Operating revenues in the period of 12 months ended 31 December 2019 and in the comparable period were as follows:

	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
<b>Operating revenues by type of products</b>		
Proprietary software and services	593,122	420,638
Third-party software and services	136,231	97,054
Hardware and infrastructure	151,983	152,685
<b>Total</b>	<b>881,336</b>	<b>670,377</b>

### i. Breakdown of segment revenues by type of products

Revenues of individual segments from sales to external customers by type of products during the period of 12 months ended 31 December 2019 and in the comparable period were as follows:

	Banking Solutions PLN'000	Payment Solutions PLN'000	Dedicated Solutions PLN'000	Total PLN'000
<b>12 months ended 31 Dec. 2019</b>				
Proprietary software and services	180,968	274,734	137,420	<b>593,122</b>
Third-party software and services	4,204	4,197	127,830	<b>136,231</b>
Hardware and infrastructure	2,737	89,110	60,136	<b>151,983</b>
<b>Total operating revenues</b>	<b>187,909</b>	<b>368,041</b>	<b>325,386</b>	<b>881,336</b>

	Banking Solutions PLN'000	Payment Solutions PLN'000	Dedicated Solutions PLN'000	Total PLN'000
<b>12 months ended 31 Dec. 2018</b>				
Proprietary software and services	154,989	172,697	92,952	<b>420,638</b>
Third-party software and services	3,614	5,261	88,179	<b>97,054</b>
Hardware and infrastructure	4,624	66,703	81,358	<b>152,685</b>
<b>Total operating revenues</b>	<b>163,227</b>	<b>244,661</b>	<b>262,489</b>	<b>670,377</b>

ii. *Breakdown of operating revenues by countries in which they were generated*

	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
<b>Operating revenues by countries</b>		
Austria	16,002	17,598
Bosnia and Herzegovina	29,683	32,493
Bulgaria	9,614	5,404
Croatia	103,980	107,280
Montenegro	18,638	17,132
Spain	96,585	-
Kosovo	17,429	13,514
Macedonia	49,302	53,217
Poland	9,618	8,820
Portugal	12,640	-
Romania	141,823	130,610
Serbia	250,763	195,208
Slovenia	19,835	17,730
Turkey	60,480	47,067
Italy	10,226	4,367
Other countries	34,718	19,937
<b>Total operating revenues</b>	<b>881,336</b>	<b>670,377</b>

iii. *Revenues from contracts with customers by the method of recognition in the income statement*

	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
<b>Revenues from contracts with customers recognized in accordance with IFRS 15, of which:</b>	<b>796,829</b>	<b>594,232</b>
From goods and services transferred at a specific point in time	297,004	305,199
From goods and services transferred over the passage of time	499,825	289,033
<b>Other operating revenues (mainly from leases)</b>	<b>84,507</b>	<b>76,145</b>
<b>Total operating revenues</b>	<b>881,336</b>	<b>670,377</b>

Operating revenues, which are not recognized in accordance with IFRS 15, represent primarily revenues generated by the Group from the provision of ATMs and POS terminals outsourcing services. Such contracts are treated as operating leases.

iv. *Other performance obligations*

The table below discloses revenues that the Group expects to recognize in the future from performance obligations that are not satisfied or only partially satisfied as at the reporting date.

<b>Transaction price allocated to performance obligations to be satisfied within:</b>	<b>PLN'000</b>
Within 1 year	684,539
Over 1 year	386,963
<b>Total</b>	<b>1,071,502</b>

Because the Group closely monitors its revenues for the next three years only, the amount disclosed in the line 'Over 1 year' corresponds to revenues contracted for 2021-2022. Revenues from contracts already signed, which will be implemented in subsequent years, are not recorded by the Group and are therefore not included in the table above.

v. *Outsourcing contracts – the Group acting as a lessor*

The Group implements a number of contracts for outsourcing of payment transaction processes. The total amounts of future minimum lease payments receivable under such contracts have been estimated as follows:

	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
<b>Future minimum lease payments</b>		
(i) within 1 year	78,113	62,672
(ii) within 1 to 5 years	93,028	49,525
(iii) within more than 5 years	6,783	4,903
<b>Total</b>	<b>177,924</b>	<b>117,100</b>

## 5.2. Structure of operating costs

### *Selected accounting policies*

The Group discloses its operating costs both by cost nature and cost function. Cost of sales comprises the costs arising directly from purchases of goods sold and generation of services sold. Selling costs include the costs of distribution and marketing activities. General and administrative expenses include the costs of the Group companies' management and administration activities.

Cost of goods, materials and services sold (COGS) represent the costs of purchases of goods and subcontractor services (excluding personal outsourcing) used for the implementation of projects. Such costs are associated both with revenues presented as own revenues (regarding revenues from services that are performed by subcontractors, if the use of third-party resources results from the Group's decision that treats such third-party resources as a substitute for own resources), as well as third-party revenues (services that must be performed by third parties – mostly software or hardware manufacturers).

Employee benefits comprise all sorts of benefits offered by the Group companies in exchange for work performed by their employees or for termination of employment. If an employee performs work for the benefit of Group companies, we recognize a cost equal to the undiscounted value of employee benefits expected to be paid in exchange for such work. In addition to remuneration, the costs of employee benefits include all paid absences, benefits resulting from the bonus schemes applied in the Group, post-employment benefits, as well as the costs of share-based payment transactions with employees.

#### Estimates

Due to the fact that the Group's costs are accounted for on an accrual basis, a portion of costs disclosed in the income statement represent costs recognized as a result of estimates regarding, for example, the costs expected to arise from a bonus scheme offered to some employees of the Group companies.

The table below presents operating costs incurred in the period of 12 months ended 31 December 2019 and in the comparable period.

Operating costs	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
Cost of goods, materials and third-party services sold (COGS)	(335,289)	(266,816)
Employee benefits	(281,712)	(201,952)
Third-party non-project services and outsourcing of employees	(29,311)	(21,787)
Depreciation and amortization	(65,687)	(45,632)
Maintenance costs of property and company cars	(28,914)	(39,703)
Business trips	(5,855)	(4,555)
Advertising	(5,452)	(4,689)
Other operating expenses	(21,185)	(10,328)
<b>Total</b>	<b>(773,405)</b>	<b>(595,462)</b>
Cost of sales	(663,553)	(508,836)
Selling costs	(53,039)	(46,611)
General and administrative expenses	(53,781)	(39,471)
Recognition (reversal) of impairment losses on financial instruments	(3,032)	(544)
<b>Total</b>	<b>(773,405)</b>	<b>(595,462)</b>

Third-party non-project services include consulting services which are not related to specific projects, as well as auditing, legal, banking, postal, courier services, and stock exchange fees.

Maintenance costs of property and company cars include the costs of equipment repairs and spare parts used for the executed projects, costs of repairs and maintenance of tangible assets (including infrastructure provided under our outsourcing contracts), maintenance costs of intangible assets, office space rental and maintenance fees, as well as maintenance of company cars.

#### i. Share-based payment transactions with employees

On 23 June 2017, Asseco Poland S.A. and managers of ASEE Group companies signed agreements for the acquisition of 2,221,356 shares in ASEE S.A., representing 4.28% of the company's share capital. Members of the Management Board of ASEE S.A. as well as parties related through Members of the Management Board of ASEE S.A. acquired 1,572,424 shares in total.

The above-mentioned agreements constitute an equity-settled share-based payment transaction as defined by IFRS 2.

The purchase rights were vested on 23 June 2017. The acquisition price was set at PLN 10.89 per share. As at the acquisition date, the market price per share equalled PLN 12.60. According to the concluded agreements, the managers shall exercise all the rights attached to shares acquired (dividend rights, voting rights, etc.) since the shares acquisition date, this is as of 23 June 2017. The consideration for the shares shall be paid in eight annual instalments till 31 July 2024. The right to pay the acquisition price in instalments is granted to persons participating in this plan provided they continue to serve in a managerial position at the Group and do not violate any material conditions of the agreement (among others, make timely payments according to the schedule, establish a pledge on shares acquired, refrain from selling these shares during the lock-up period, etc.). The managers are not allowed to sell these shares over a lock-up period of 2 years in relation to 50% of shares and 3 years for the remaining 50% of shares. The managers shall be entitled to make an earlier payment for shares acquired at the agreed price of PLN 10.89 per share, except for shares being subject to the lock-up obligation. Therefore, over a period of 2 years from the date of concluding the agreement, payments for shares acquired must be made in accordance with the agreed schedule. Hence, after 2 years have passed

and still before the lapse of 3 years, the managers can make an early payment for 50% of shares at maximum. Upon expiry of the 3-year period, early payment can be made for all shares acquired. An unpaid portion of the selling price shall be secured by establishing a pledge on shares purchased by each buyer.

The agreements also provide for put and call options, enabling the parties to resell or repurchase any unpaid shares.

The fair value of this share-based incentive plan has been estimated as the sum of the discount between the shares market price on the transaction date and their actual acquisition price, and the valuation of put options measured using the Black-Scholes Merton model. The total fair value of the plan as at the rights vesting date amounts to PLN 5,642 thousand. The incentive plan costs will be accounted for, along with the corresponding increase in equity, as costs of employee benefits and recognized in the financial results of ASEE Group for the years 2017-2020.

The fair value of equity instruments awarded under the incentive plan has been measured based on the following assumptions:

Market price of 1 share of ASEE S.A. on the acquisition date	PLN 12.60
Acquisition price of 1 share	PLN 10.89
Expected share price volatility	25.61%
Risk-free interest rate	2.25%
Dividend yield	3.81%
Employee turnover ratio	9.0%

The expected share price volatility of 25.61% has been computed based on historical quotes of our shares in the period of two years preceding the date of the shares sale transaction, taking into account their average closing prices.

The risk-free interest rate has been assumed in correspondence to the interest offered on three-year Treasury bills, equalling 2.25%.

The dividend yield has been determined on the basis of dividend amounting to PLN 0.48 per share that was paid out to the shareholders of ASEE S.A. from the company's net profit for the year 2016.

The employee turnover ratio has been estimated based on historical data for the years 2015-2017 and updated with current changes in the employment of persons participating in the incentive plan.

The options exercise period has been set at 2 years in relation to 50% of shares and 3 years for the remaining 50% of shares. The options exercise period has been correlated with the lock-up period applicable to the sale of shares, lasting 2 or 3 years.

The costs of share-based payment plan disclosed in the consolidated financial statements for the year ended 31 December 2019 amounted to PLN 2,094 thousand (vs. PLN 2,493 thousand in 2018), of which costs related to shares acquired by Members of the Management Board amounted to PLN 1,447 thousand (vs. PLN 1,765 thousand in 2018). In correspondence, this transaction was recognized as a separate item of the Group's equity, in the same amount as disclosed in remuneration costs.



## ii. Reconciliation of depreciation and amortization charges

The table below presents the reconciliation of depreciation and amortization charges recognized in the income statement with those disclosed in the tables of changes in property, plant and equipment, as well as in intangible assets:

	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
Depreciation charges as disclosed in the table of changes in property, plant and equipment	(43,789)	(40,746)
Amortization charges as disclosed in the table of changes in intangible assets	(5,228)	(4,854)
Depreciation charges as disclosed in the table of changes in right-of-use assets	(16,677)	-
Depreciation charges on investment property	(32)	(32)
Reduction of amortization charges due to recognition of grants to internally generated licenses	39	-
<b>Total depreciation and amortization charges disclosed in the income statement and in the statement of cash flows</b>	<b>(65,687)</b>	<b>(45,632)</b>

## 5.3. Other operating income and expenses

### *Selected accounting policies*

*In other operating activities, the Group discloses primarily income and expenses that are not related to our core IT operations.*

Other operating income and expenses in the period of 12 months ended 31 December 2019 and in the comparable period were as follows:

Other operating income	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
Gain on disposal of property, plant and equipment	704	557
Proceeds from letting of own office space	65	68
Reversal of a provision for the costs of court litigation relating to other operations	251	160
Other	3,233	728
<b>Total</b>	<b>4,253</b>	<b>1,513</b>

Other operating expenses	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
Loss on disposal of property, plant and equipment	(18)	(168)
Charitable contributions to unrelated parties	(331)	(237)
Provisions created, including for the costs of court litigation relating to other operations	(366)	(71)
Other	(1,208)	(1,168)
<b>Total</b>	<b>(1,923)</b>	<b>(1,644)</b>

## 5.4. Financial income and expenses

### *Selected accounting policies*

*Interest income comprises primarily interest on investments in debt securities (including loans granted and cash deposits with a maturity of more than three months). Such income is measured at amortized cost using the effective interest rate. Other interest income comprises interest on trade receivables, interest on leases, as well as discounts on costs (liabilities) accounted for using the effective interest method.*

*Interest expenses incurred on external financing obtained by the Group are charged at amortized cost.*

Financial income earned during the period of 12 months ended 31 December 2019 and in the comparable period was as follows:



Financial income	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
Interest income on loans granted and bank deposits	2,247	1,670
Positive foreign exchange differences	1,577	3,966
Gain on exercise and/or valuation of financial assets carried at fair value through profit or loss	177	328
Gain on remeasurement of an associate to fair value	2,014	-
Other financial income	17	74
<b>Total financial income</b>	<b>6,032</b>	<b>6,038</b>

The gain on remeasurement of an associate to fair value is related to the acquisition of a 36.30% stake in the share capital of Multicard d.o.o. by Payten Serbia and obtaining control over that company. The details of accounting for this acquisition are presented in explanatory note 6.4.

Financial expenses incurred during the period of 12 months ended 31 December 2019 and in the comparable period were as follows:

Financial expenses	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
Interest expenses on bank loans and borrowings	(1,239)	(1,039)
Interest expenses on leases	(1,981)	(99)
Other interest expenses	(129)	(121)
Negative foreign exchange differences	(896)	(267)
Expenses related to obtaining control over subsidiaries	(596)	-
Loss on revaluation of conditional payments in transactions to obtain control	(723)	-
Loss on exercise and/or valuation of financial assets carried at fair value through profit or loss	(125)	(917)
Other financial expenses	(23)	(17)
<b>Total financial expenses</b>	<b>(5,712)</b>	<b>(2,460)</b>

Positive and negative foreign exchange differences are presented in net amounts (reflecting the excess of positive differences over negative differences or otherwise) at the level of individual subsidiaries.

Loss on revaluation of conditional payments for controlling interests in subsidiaries resulted from changes in the estimates of deferred contingent liabilities arising from the acquisition of controlling interests in subsidiaries.

## 5.5. Corporate income tax

### Selected accounting policies

The Group recognizes and measures its current and deferred income tax assets and liabilities in accordance with the requirements of IAS 12 'Income Taxes' on the basis of taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into account the assessment of uncertainty over tax treatments.

Income tax comprises current and deferred portion. The current income tax is the amount determined on the basis of tax regulations, which is calculated on the taxable income for a given period and recognized as a liability in the amount it was not paid, or as a receivable if the amount of current income tax already paid exceeds the amount to be paid.

For the purpose of financial reporting, deferred income tax is calculated applying the balance sheet liability method to all temporary differences that exist, at the reporting date, between the tax base of an asset or liability and its carrying value disclosed in the financial statements. Deferred tax liabilities are recognized in relation to all positive temporary differences – except for situations when a deferred tax liability arises from initial recognition of goodwill or initial recognition of an asset or liability on a transaction other than combination of businesses, which at the time of its conclusion has no influence on pre-tax profit, taxable income or tax loss, as well as in relation to positive temporary differences arising from investments in subsidiaries or associates or from interests in joint ventures – except for situations when the investor is able to control the timing of reversal of such temporary differences and when it is probable that such temporary differences will not be reversed in the foreseeable future. Deferred tax assets are recognized in relation to all negative temporary differences as well as unutilized tax losses carried forward to subsequent years, in such amount that it is probable that future taxable income will be sufficient to allow the above-mentioned temporary differences, assets or losses to be utilized – except for situations when deferred tax assets related to negative temporary differences arise from initial recognition of an asset or liability on a transaction other than combination of businesses, which at the time of its conclusion has no influence on pre-tax profit, taxable income or tax loss; as well as in relation to negative temporary differences arising from investments in subsidiaries or associates or from interests in joint ventures. Deferred tax assets are recognized in the statement of financial position in such amount only that it is probable that the above-mentioned temporary differences will be reversed in the foreseeable future and that sufficient taxable income will be available to offset such negative temporary differences. The carrying value of an individual

*deferred tax asset shall be verified at each reporting date and shall be adequately decreased or increased in order to reflect any changes in the estimates of achieving taxable profit sufficient to utilize such deferred tax asset partially or entirely.*

*Deferred income tax assets and liabilities are treated in whole as long-term items and are not discounted. They can be compensated against each other if the entity holds an enforceable legal title to offset the amounts recognized.*

*Deferred tax assets and deferred tax liabilities shall be valued using the future tax rates anticipated to be applicable at the time when a deferred tax asset is realized or a deferred tax liability is reversed, based on the tax rates (and tax regulations) legally or factually in force at the reporting date.*

*Income tax relating to items that are recognized directly in equity shall be disclosed under equity and not in the income statement.*

#### Estimates

*The Group makes an assessment of realizability of deferred income tax assets at each reporting date. This assessment requires the exercise of professional judgment and estimates, among others, regarding the future taxable income.*

The main charges on pre-tax profit resulting from corporate income tax (current and deferred portions):

	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
Current corporate income tax expense as disclosed in the income statement, of which:	(20,992)	(14,459)
<i>Current portion of income tax</i>	(21,530)	(14,459)
<i>Corrections of CIT returns for prior years</i>	538	-
Deferred income tax	1,884	1,562
<b>Income tax expense as disclosed in the income statement</b>	<b>(19,108)</b>	<b>(12,897)</b>

The table below presents the reconciliation of corporate income tax payable on pre-tax profit at the statutory tax rate, with corporate income tax computed at the Group's effective tax rate:

	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
<b>Pre-tax profit</b>	<b>110,430</b>	<b>78,060</b>
Statutory corporate income tax rate	19%	19%
<b>Corporate income tax computed at the statutory tax rate</b>	<b>20,982</b>	<b>14,831</b>
Difference due to different rates of corporate income tax paid abroad	(2,765)	(3,046)
Change in estimates of deferred tax assets recognized on the so-called "external temporary differences" resulting from dividend payments within the Group	2,387	1,623
Utilization of tax credits and other tax deductibles	(553)	(1,037)
Non-taxable income achieved in a special technological zone	(3,756)	(2,703)
Non-tax-deductible expenses incurred in a technological zone	1,814	1,184
Representation expenses	271	190
Depreciation and amortization charges, differences in rates of depreciation and amortization	580	646
Write-downs on receivables/inventories/tangible assets	520	95
Costs of share-based payment transactions with employees	393	475
Remuneration of the Supervisory Board	144	153
Changes in the calculation of corporate income tax for the prior years	(543)	72
Costs of company acquisitions	324	-
Gain on fair-value remeasurement of an associate due to obtaining control	(302)	-
Utilization of tax losses and change in deferred tax assets arising from tax losses	(254)	-
Other permanent differences	(134)	414
<b>Corporate income tax at the effective tax rate of 17.3% in 2019, and 16.5% in 2018</b>	<b>19,108</b>	<b>12,897</b>

The table below presents information on deferred tax assets and liabilities:

	Deferred tax liabilities, gross		Deferred tax assets, gross	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
	PLN'000	PLN'000	PLN'000	PLN'000
Property, plant and equipment	1,572	1,976	2,485	1,243
Intangible assets	990	-	396	667
Right-of-use assets	1,704	-	-	-
Financial assets carried at fair value through profit or loss	13	15	75	74
Loans granted	36	22	-	-
Inventories	-	-	1,582	1,361
Prepayments and accrued income	7	-	30	43
Trade receivables	2	-	628	272
Contract assets	788	407	-	-
Other receivables	12	-	-	-
Provisions	3	15	624	698
Trade payables	-	-	342	201
Contract liabilities	91	5	163	29
Financial liabilities, including lease liabilities	-	-	2,204	-
Other liabilities	-	-	-	3
Accruals	-	-	1,347	989
Losses deductible against future taxable income	-	-	2,976	46
<b>Deferred tax liabilities, gross</b>	<b>5,218</b>	<b>2,440</b>		
<b>Deferred tax assets, gross</b>			<b>12,852</b>	<b>5,626</b>
Write-down due to inability to realize a deferred tax asset			-	-
<b>Deferred tax assets, net</b>			<b>12,852</b>	<b>5,626</b>
<b>Deferred tax liabilities/assets, net</b>	<b>1,344</b>	<b>1,599</b>	<b>8,978</b>	<b>4,785</b>

The Group made an estimate of taxable income planned to be achieved in the future and concluded it will enable full recovery of deferred tax assets disclosed in these consolidated financial statements.

## 5.6. Earnings per share

### *Selected accounting policies*

*Basic earnings per share attributable to shareholders of the Parent Company for each reporting period shall be computed by dividing the net profit from continuing operations for the reporting period by the weighted average number of shares outstanding in that period. Diluted earnings per share attributable to shareholders of the Parent Company for each reporting period shall be calculated by dividing the net profit from continuing operations for the reporting period by the total of weighted average number of shares outstanding in that period and all shares from potential new issuances.*

Both during the reporting period and the comparable period, there were no instruments that could potentially dilute basic earnings per share, hence our basic earnings per share and diluted earnings per share are equal. The table below presents net profits and numbers of shares used for the calculation of earnings per share.

	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
Weighted average number of ordinary shares outstanding, used for calculation of basic earnings per share	51,894,251	51,894,251
Net profit attributable to shareholders of the Parent Company for the reporting period (in millions of PLN)	89,989	64,716
<b>Consolidated earnings per share for the reporting period (in PLN)</b>	<b>1.73</b>	<b>1.25</b>

### 5.7. Information on dividends paid out

The Annual General Meeting of Asseco South Eastern Europe S.A. seated in Rzeszów, acting on the basis of art. 395 § 2 item 2) of the Commercial Companies Code as well as pursuant to § 12 sec. 4 item 2 of the Company's Articles of Association, on 11 April 2019 decided to pay out a dividend in the total amount of PLN 26,985 thousand or PLN 0.52 per share to all of the Company's shareholders.

The Company's Annual General Meeting established 28 June 2019 as the dividend record date. The dividend was paid out on 11 July 2019. The number of shares eligible for dividend was 51,894,251.

## VI. Explanatory notes to the consolidated statement of financial position

### 6.1. Property, plant and equipment

#### Selected accounting policies

##### Initial recognition

Property, plant and equipment are disclosed at purchase cost or production cost decreased by accumulated depreciation and any impairment losses. The initial value of a tangible asset corresponds to its purchase cost increased by expenditures related directly to the purchase and adaptation of such asset to its intended use. Such expenditures may also include the cost of replacing parts of machinery or equipment at the time that cost is incurred if the recognition criteria are met. Any costs incurred after a tangible asset is made available for use, such as maintenance or repair fees, are expensed in the income statement at the time when incurred.

At the time of purchase tangible assets are divided into components of significant value for which separate periods of useful life may be adopted. General overhaul expenses constitute a component of assets as well.

##### Measurement at each reporting date

Such assets are depreciated using the straight-line method over their expected useful lives. The periods of useful life are presented in the table below:

Type	Period (in years)
Buildings and structures	40
Computers and telecommunication equipment	1-5
Furniture	2-8
Office equipment	5-10
Transportation vehicles	4-6
Other tangible assets	2-5
Leasehold improvements	5

At each reporting date, the Group determines whether there are any indications of impairment of tangible assets. In the event such indications occur, or when it is necessary to carry out an annual impairment test, the Group estimates the recoverable amount of a given asset or cash-generating unit to which such asset has been allocated. Impairment losses on assets used in continuing operations are recognized as operating expenses.

##### Derecognition

A tangible asset may be derecognized from the balance sheet after it is disposed of or when no economic benefits are expected from its further use. Any gains or losses resulting from derecognition of an asset from the balance sheet (measured as the difference between net proceeds from disposal of such asset and its carrying value) are recognized in the income statement for the period when such derecognition is made.

Investments in progress relate to tangible assets under construction or during assembly and are recognized at purchase cost or production cost, decreased by any potential impairment losses. Tangible assets under construction are not depreciated until being completed and available for use.

##### Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset, that requires substantial time to be prepared to its intended use or sale, are capitalized by the Group as part of such asset's purchase price or production cost. Other borrowing costs are recognized as expenses in the period in which they are incurred.

### Estimates

At each reporting date, the Group determines if there are any objective indications of impairment of a given component of property, plant and equipment.

Such assets are as a rule depreciated using the straight-line method over their expected useful lives.

The level of depreciation rates is determined on the basis of anticipated period of useful life of property, plant and equipment. In 2019 the rates of depreciation and amortization applied by the Group were not subject to any substantial modifications.

The Group companies verify the adopted periods of useful life on an annual basis, taking into account the current estimates.

The net book value of property, plant and equipment, during the period of 12 months ended 31 December 2019 changed as a result of the following transactions:

	Land and buildings PLN'000	Outsourcing and other equipment PLN'000	Transportation vehicles PLN'000	Other tangible assets PLN'000	Tangible assets under construction PLN'000	Total PLN'000
<b>Net book value of property, plant and equipment as at 1 January 2019</b>	<b>4,557</b>	<b>111,788</b>	<b>6,077</b>	<b>2,212</b>	<b>4,058</b>	<b>128,692</b>
<b>Impact of the adoption of IFRS 16 on the opening balance</b>	-	-	(1,820)	-	-	(1,820)
<b>Net book value of property, plant and equipment as at 1 January 2019 /restated/</b>	<b>4,557</b>	<b>111,788</b>	<b>4,257</b>	<b>2,212</b>	<b>4,058</b>	<b>126,872</b>
<b>Additions, of which:</b>	<b>3,766</b>	<b>54,616</b>	<b>2,633</b>	<b>6,003</b>	<b>35,527</b>	<b>102,545</b>
Purchases and modernization	275	10,153	1,814	3,117	35,024	50,383
Obtaining control over subsidiaries	3,491	8,371	761	1,060	-	13,683
Acquisition of right-of-use assets	-	-	58	-	-	58
Transfers from tangible assets under construction	-	30,746	-	1,819	-	32,565
Transfers from inventories to tangible assets	-	5,346	-	7	503	5,856
<b>Reductions, of which:</b>	<b>(329)</b>	<b>(41,271)</b>	<b>(2,001)</b>	<b>(2,851)</b>	<b>(33,902)</b>	<b>(80,354)</b>
Depreciation charges	(329)	(39,273)	(1,363)	(2,824)	-	(43,789)
Disposal and liquidation	-	(474)	(594)	(22)	-	(1,090)
Recognition of impairment losses	-	(465)	(44)	-	(40)	(549)
Transfers from tangible assets under construction	-	-	-	-	(32,565)	(32,565)
Transfers to inventories	-	(1,059)	-	(5)	(1,297)	(2,361)
<b>Other</b>	-	<b>(5,602)</b>	-	<b>5,604</b>	<b>(2)</b>	-
<b>Foreign exchange differences on translation of foreign operations</b>	<b>(49)</b>	<b>(1,488)</b>	<b>(99)</b>	<b>(268)</b>	<b>(98)</b>	<b>(2,002)</b>
<b>Net book value of property, plant and equipment as at 31 December 2019</b>	<b>7,945</b>	<b>118,043</b>	<b>4,790</b>	<b>10,700</b>	<b>5,583</b>	<b>147,061</b>
As at 1 January 2019 (including impact of the adoption of IFRS 16)						
Gross value	5,606	233,500	10,335	7,780	4,058	261,279
Accumulated depreciation and impairment losses	(1,049)	(121,712)	(6,078)	(5,568)	-	(134,407)
<b>Net book value as at 1 January 2019</b>	<b>4,557</b>	<b>111,788</b>	<b>4,257</b>	<b>2,212</b>	<b>4,058</b>	<b>126,872</b>
As at 31 December 2019						
Gross value	11,211	267,756	11,172	20,326	5,623	316,088
Accumulated depreciation and impairment losses	(3,266)	(149,713)	(6,382)	(9,626)	(40)	(169,027)
<b>Net book value as at 31 December 2019</b>	<b>7,945</b>	<b>118,043</b>	<b>4,790</b>	<b>10,700</b>	<b>5,583</b>	<b>147,061</b>

The net book value of property, plant and equipment, during the period of 12 months ended 31 December 2018 changed as a result of the following transactions:

	Land and buildings PLN'000	Outsourcing and other equipment PLN'000	Transportati on vehicles PLN'000	Other tangible assets PLN'000	Tangible assets under construction PLN'000	Total PLN'000
<b>Net book value of property, plant and equipment as at 1 January 2018</b>	<b>4,560</b>	<b>108,628</b>	<b>6,624</b>	<b>1,970</b>	<b>10,176</b>	<b>131,958</b>
<b>Additions, of which:</b>	<b>-</b>	<b>39,444</b>	<b>2,053</b>	<b>1,092</b>	<b>15,174</b>	<b>57,763</b>
Purchases and modernization	-	18,651	1,417	1,073	15,174	36,315
Finance leases	-	-	632	-	-	632
Transfers from tangible assets under construction	-	20,793	-	-	-	20,793
Transfers from inventories to tangible assets	-	-	4	19	-	23
<b>Reductions, of which:</b>	<b>(116)</b>	<b>(38,897)</b>	<b>(2,715)</b>	<b>(633)</b>	<b>(21,576)</b>	<b>(63,937)</b>
Depreciation charges	(116)	(37,672)	(2,344)	(614)	-	(40,746)
Disposal and liquidation	-	(478)	(371)	(19)	-	(868)
Transfers from tangible assets under construction	-	-	-	-	(20,793)	(20,793)
Transfers to inventories	-	(697)	-	-	(665)	(1,362)
Other	-	(50)	-	-	(118)	(168)
<b>Foreign exchange differences on translation of foreign operations</b>	<b>113</b>	<b>2,613</b>	<b>115</b>	<b>(217)</b>	<b>284</b>	<b>2,908</b>
<b>Net book value of property, plant and equipment as at 31 December 2018</b>	<b>4,557</b>	<b>111,788</b>	<b>6,077</b>	<b>2,212</b>	<b>4,058</b>	<b>128,692</b>
As at 1 January 2018						
Gross value	5,448	208,532	15,283	7,549	10,176	246,988
Accumulated depreciation and impairment losses	(888)	(99,904)	(8,659)	(5,579)	-	(115,030)
<b>Net book value as at 1 January 2018</b>	<b>4,560</b>	<b>108,628</b>	<b>6,624</b>	<b>1,970</b>	<b>10,176</b>	<b>131,958</b>
As at 31 December 2018						
Gross value	5,606	233,500	14,257	7,780	4,058	265,201
Accumulated depreciation and impairment losses	(1,049)	(121,712)	(8,180)	(5,568)	-	(136,509)
<b>Net book value as at 31 December 2018</b>	<b>4,557</b>	<b>111,788</b>	<b>6,077</b>	<b>2,212</b>	<b>4,058</b>	<b>128,692</b>

Some pieces of equipment have been transferred from inventories to tangible assets because they are utilized in the performance of our outsourcing contracts.

As at 31 December 2019, tangible assets with a book value of PLN 8,674 thousand served as collateral for bank loans.

As at 31 December 2018, tangible assets with a book value of PLN 1,076 thousand served as collateral for bank loans.

## 6.2. Intangible assets

### Selected accounting policies

#### Intangible assets purchased

Intangible assets purchased in a separate transaction shall be capitalized at purchase cost. Intangible assets acquired as a result of a company takeover shall be capitalized at fair value as at the takeover date.

#### Internally generated intangible assets

The Group presents in separate categories the final products of development projects ("internally generated software and licenses") and the products which have not been finished yet ("costs of development projects in progress"). An intangible asset generated internally as a result of development work (or completion of the development phase of an internal project) is recognized if, and only if, the Company is able to demonstrate: (i) the technical feasibility of completing such intangible asset so that it would be available for use or sale; (ii) the intention to complete the construction of such intangible asset; (iii) the ability to use or sell such intangible asset; (iv) how such intangible asset is going to generate probable future economic benefits; (v) the availability of adequate technical, financial and other resources to complete the development work and to make the intangible asset ready for use or sale; (vi) its ability to reliably measure the expenditure for the development work attributable to such intangible asset.

The cost of an internally generated intangible asset is the sum of expenditures incurred from the date when the intangible asset first meets the above-mentioned recognition criteria. Expenditures previously recognized as expenses may not be capitalized. The cost of an internally generated intangible asset comprises directly attributable costs necessary to create, produce, and prepare that asset to be capable of operating in the manner intended by management.

**The period of useful life of an intangible asset shall be assessed and classified as definite or indefinite.** Intangible assets with a definite period of useful life are amortized using the straight-line method over their expected useful life, and amortization charges are expensed adequately in the income statement.

Amortization charges against intangible assets with a definite period of useful life are recognized in profit or loss, in the category which corresponds to the function of each individual intangible asset.

All the intangible assets subject to amortization are amortized under the straight-line method. Presented below are the periods of useful life adopted for intangible assets:

Type	Period (in years)
Purchased licenses and software	2-5
Cost of development work	2-5
Patents and licenses	2-5
Other	3-10

Intangible assets with an indefinite period of useful life and those which are no longer used are tested for possible impairment at least once a year and whenever there are indications to do so. Should the carrying value exceed the estimated recoverable amount (the higher of the following two amounts: net sales price or value in use), the value of these assets shall be reduced to the recoverable amount.

Any gains or losses resulting from derecognition of an intangible asset from the statement of financial position (measured as the difference between net proceeds from disposal of such asset and its carrying value) are recognized in the income statement at the time when such derecognition is made.

#### Estimates

At each reporting date, the Group determines if there are any objective indications of impairment of a given component of intangible assets. The period of useful life of an intangible asset shall be assessed and classified as definite or indefinite. Intangible assets with a definite period of useful life are amortized using the straight-line method over their expected useful life, and amortization charges are expensed adequately in the income statement.

The Group verifies the adopted periods of useful life on an annual basis, taking into account the current estimates.

The costs of internally generated intangible assets are measured and capitalized in line with the Group's accounting policy. The determination of when to begin the capitalization of such costs is subject to the management's professional judgement as to the technological and economic feasibility of completing the development project. This moment is determined by reaching a stage (milestone) of the project, at which the Group is reasonably certain of being able to complete the intangible asset so that it will be available for use or sale, and that future economic benefits to be obtained from use or sale of such intangible asset will exceed its production cost. When determining the amount of capitalizable expenditures, the Management Board needs to estimate the present value of future cash flows to be generated by the intangible asset.

The net book value of intangible assets, during the period of 12 months ended 31 December 2019 changed as a result of the following transactions:

	Software and internally generated licenses PLN'000	Costs of development projects in progress PLN'000	Purchased software, patents, licenses and other intangibles PLN'000	Total PLN'000
<b>Net book value of intangible assets as at 1 January 2019</b>	<b>1,348</b>	<b>2,222</b>	<b>7,284</b>	<b>10,854</b>
<b>Additions, of which:</b>	<b>7,306</b>	<b>353</b>	<b>6,413</b>	<b>14,072</b>
Purchases and modernization	-	-	5,069	5,069
Obtaining control over subsidiaries	4,830	178	1,344	6,352
Capitalization of development project costs	-	175	-	175
Transfers from the costs of development projects in progress	2,476	-	-	2,476
<b>Reductions, of which:</b>	<b>(4,868)</b>	<b>(2,476)</b>	<b>(3,305)</b>	<b>(10,649)</b>
Amortization charges for the reporting period	(1,923)	-	(3,305)	(5,228)
Disposal and liquidation	(1,323)	-	-	(1,323)
Transfers to internally generated software	-	(2,476)	-	(2,476)
Impairment loss	(1,622)	-	-	(1,622)
<b>Foreign exchange differences on translation of foreign operations</b>	<b>(234)</b>	<b>(8)</b>	<b>85</b>	<b>(157)</b>
<b>Net book value of intangible assets as at 31 December 2019</b>	<b>3,552</b>	<b>91</b>	<b>10,477</b>	<b>14,120</b>
As at 1 January 2019				
Gross value	7,599	2,222	29,962	39,783
Accumulated depreciation and impairment losses	(6,251)	-	(22,678)	(28,929)
<b>Net book value as at 1 January 2019</b>	<b>1,348</b>	<b>2,222</b>	<b>7,284</b>	<b>10,854</b>
As at 31 December 2019				

Gross value	23,303	91	37,028	<b>60,422</b>
Accumulated depreciation and impairment losses	(19,751)	-	(26,551)	<b>(46,302)</b>
<b>Net book value as at 31 December 2019</b>	<b>3,552</b>	<b>91</b>	<b>10,477</b>	<b>14,120</b>

The net book value of intangible assets, during the period of 12 months ended 31 December 2018 changed as a result of the following transactions:

	Software and internally generated licenses PLN'000	Costs of development projects in progress PLN'000	Purchased software, patents, licenses and other intangibles PLN'000	Total PLN'000
<b>Net book value of intangible assets as at 1 January 2018</b>	<b>8,147</b>	<b>2,211</b>	<b>7,588</b>	<b>17,946</b>
<b>Additions, of which:</b>	<b>868</b>	<b>1,393</b>	<b>2,524</b>	<b>4,785</b>
Purchases and modernization	-	-	2,524	<b>2,524</b>
Capitalization of development project costs	-	1,393	-	<b>1,393</b>
Transfers from the costs of development projects in progress	868	-	-	<b>868</b>
<b>Reductions, of which:</b>	<b>(6,854)</b>	<b>(1,181)</b>	<b>(2,786)</b>	<b>(10,821)</b>
Amortization charges for the reporting period	(2,068)	-	(2,786)	<b>(4,854)</b>
Disposal and liquidation	(4,786)	(313)	-	<b>(5,099)</b>
Transfers to internally generated software	-	(868)	-	<b>(868)</b>
<b>Foreign exchange differences on translation of foreign operations</b>	<b>(813)</b>	<b>(201)</b>	<b>(42)</b>	<b>(1,056)</b>
<b>Net book value of intangible assets as at 31 Dec. 2018</b>	<b>1,348</b>	<b>2,222</b>	<b>7,284</b>	<b>10,854</b>

As at 1 January 2018

Gross value	33,987	2,211	27,881	<b>64,079</b>
Accumulated depreciation and impairment losses	(25,840)	-	(20,293)	<b>(46,133)</b>
<b>Net book value as at 1 January 2018</b>	<b>8,147</b>	<b>2,211</b>	<b>7,588</b>	<b>17,946</b>

As at 31 December 2018

Gross value	7,599	2,222	29,962	<b>39,783</b>
Accumulated depreciation and impairment losses	(6,251)	-	(22,678)	<b>(28,929)</b>
<b>Net book value as at 31 December 2018</b>	<b>1,348</b>	<b>2,222</b>	<b>7,284</b>	<b>10,854</b>

Both as at 31 December 2019 and 31 December 2018, intangible assets did not serve as collateral for any bank loans.

During the period of 12 months ended 31 December 2019, the Group recognized the costs of liquidation and impairment losses on its proprietary software and licenses in the amount of PLN 2,945 thousand.

For impairment testing purposes, intangible assets are allocated to individual cash-generating units or groups of cash-generating units. The conducted annual impairment tests have been described in detail in explanatory note 6.5 to these consolidated financial statements. The recoverable amount of the costs of development projects in progress was measured as at the reporting date by analyzing the future cash flows to be generated by each of such ongoing projects. Based on the carried out analysis, it was determined that the costs of development projects in progress were not impaired as at the reporting date.



## Development projects

In 2019 as well as in the comparable period, the development projects carried out by the Group focused on the generation of new software or significant modification/extension of already marketed applications.

In the year ended 31 December 2019, total development project costs which qualified for capitalization amounted to PLN 175 thousand (vs. PLN 1,393 thousand in the comparable period) and they were incurred by the following operating segments:

	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
	PLN'000	PLN'000
Banking Solutions	-	396
Payment Solutions	175	408
Dedicated Solutions	-	589
<b>Total</b>	<b>175</b>	<b>1,393</b>

The value of completed development projects amounted to PLN 2,476 thousand in the period of 12 months ended 31 December 2019, as compared with PLN 868 thousand in 2018.

The total amount of research and development expenditures that were expensed in the period of 12 months ended 31 December 2019 equalled PLN 12,287 thousand, as compared with PLN 12,825 thousand in the comparable period.

In 2019, the Group decided to recognize an impairment write-down as well as to liquidate its capitalized costs of development projects (both completed and in progress) with a total amount of PLN 2,945 thousand. The liquidation affected the capitalized costs of development projects in Serbia and Turkey, in the Banking Solutions segment (PLN 2,430 thousand), and in the Payment Solutions segment (PLN 515 thousand). Such write-downs resulted from the Management's assessment of the amount of realizable revenues from individual, internally generated software modules.

## 6.3. Right-of-use assets

### Selected accounting policies

*At the contract inception, the Group determines whether a contract is a lease or contains a lease. A contract is a lease or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.*

*The Group applies a single accounting model for the recognition and measurement of all leases, except for short-term leases and leases of low-value assets. At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability.*

#### **Short-term leases and leases of low-value assets**

*The Group has applied the exemption not to recognize right-of-use assets and liabilities for short-term leases with terms less than 12 months which do not contain a purchase option. The Group has also applied the exemption for the recognition of leases of low-value assets. Lease payments under short-term leases and leases of low-value assets shall be expensed on a straight-line basis over the lease term.*

#### **Initial recognition and measurement of right-of-use assets**

*Since 1 January 2019, in the case of contracts identified as leases, the Group has recognized right-of-use assets as at the lease commencement date (i.e. the date when the asset being leased is available for use by the Group).*

*Right-of-use assets are initially recognized at cost. The cost of the right-of-use asset shall comprise: the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received; any initial direct costs incurred by the lessee; and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset.*

#### **Subsequent measurement of right-of-use assets**

*The Group shall measure the right-of-use asset applying a cost model, this is at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liability (i.e. modifications that are not required to be accounted for as a separate lease).*

***Right-of-use assets are depreciated by the Group basically using the straight-line method.** If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group shall depreciate the right-of-use asset from the lease commencement date to the end of the useful life of the underlying asset. Otherwise, the Group shall depreciate the right-of-use asset from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.*

*The Group applies the provisions of IAS 36 'Impairment of Assets' to determine whether the right-of-use asset is impaired.*

### Estimates

*At the contract inception, the Group makes an assessment whether the contract is a lease or contains a lease, and estimates the incremental borrowing rate and the lease term.*

*At each reporting date, the Group determines if there are any objective indications of impairment of a given right-of-use asset. Such assets are as a rule depreciated using the straight-line method over their expected useful lives.*

As described in explanatory note 2.5 to these annual consolidated financial statements, the Group has adopted the new IFRS 16 standard as of 1 January 2019. Following the adoption of this standard, the Group has introduced a new line in the statement of financial position, namely 'Right-of-use assets' reflecting the value of the rights to use underlying assets arising from lease contracts, rental and hire contracts, as well as other contracts of similar nature that meet the definition of a lease under IFRS 16. As a consequence of applying the modified retrospective approach, the Group has not restated the relevant data for the comparable period and such data are not presented.

	Land and buildings PLN'000	Transportation vehicles PLN'000	Other PLN'000	Total PLN'000
<b>Net book value of property, plant and equipment as at 1 January 2019</b>	-	-	-	-
Impact of the adoption of IFRS 16 on the opening balance	27,777	7,197	-	34,974
<b>Net book value of property, plant and equipment as at 1 January 2019 /restated/</b>	<b>27,777</b>	<b>7,197</b>	<b>-</b>	<b>34,974</b>
<b>Additions, of which:</b>	<b>35,975</b>	<b>6,121</b>	<b>9,071</b>	<b>51,167</b>
Conclusion of new lease contracts	25,902	5,228	662	31,792
Modification of existing contracts (lease extension, interest rate change)	634	-	-	634
Obtaining control over subsidiaries	9,439	893	8,409	18,741
<b>Reductions, of which:</b>	<b>(16,022)</b>	<b>(3,364)</b>	<b>(610)</b>	<b>(19,996)</b>
Depreciation charges for the reporting period	(12,844)	(3,223)	(610)	(16,677)
Acquisition of right-of-use assets	-	(58)	-	(58)
Early termination of contracts	(2,814)	(83)	-	(2,897)
Modification of existing contracts (lease shortening, interest rate change)	(364)	-	-	(364)
<b>Other</b>	<b>647</b>	<b>(647)</b>	<b>-</b>	<b>-</b>
<b>Foreign exchange differences on translation of foreign operations</b>	<b>(802)</b>	<b>(212)</b>	<b>(76)</b>	<b>(1,090)</b>
<b>Net book value of property, plant and equipment as at 31 December 2019</b>	<b>47,575</b>	<b>9,095</b>	<b>8,385</b>	<b>65,055</b>

Before the adoption of IFRS 16, assets used under finance lease contracts as defined by IAS 17 used to be disclosed within property, plant and equipment. The book value of each group of such assets as at 31 December 2018 has been presented in explanatory note 6.1.

#### 6.4. Goodwill

##### *Selected accounting policies*

##### **Goodwill**

Goodwill is an asset representing future economic benefits arising from assets acquired as part of a business acquisition that cannot be individually identified or separately recognized.

Goodwill arising from the acquisition of an entity is initially recognized at purchase cost, which represents the excess of: (i) the value of the consideration transferred; (ii) the amount of any non-controlling interest in the acquired entity; and (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity interest in the acquired entity; over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

As at the acquisition date, the acquired goodwill is allocated to every cash-generating unit which may benefit from synergy effects arising from a business combination.

After initial recognition, goodwill is accounted for at purchase cost less any accumulated impairment charges. Goodwill is tested for impairment on an annual basis as at 31 December, or more frequently if there are indications to do so. Goodwill is not subject to amortization.

An impairment loss is determined by estimating the recoverable amount of a cash-generating unit to which goodwill has been allocated. In the event the recoverable amount of a cash-generating unit is lower than its carrying value, an impairment charge shall be recognized.

Goodwill is derecognized in the case of losing control over the cash-generating unit to which it was allocated.

Within the Group, there are often combinations of businesses under common control, whereby all of the combining business entities are ultimately controlled by the same party or parties, both before and after the business combination, and that control is not transitory. Under such transactions, the fair value of combined assets (including intangible assets) is not remeasured. Likewise, goodwill previously recognized in the consolidated financial statements remains unchanged.

### Estimates

Goodwill is tested for impairment on an annual basis as well as at each reporting date when there is a justified indication to do so. Performing such a test requires estimating the recoverable amount of a cash-generating unit and is usually carried out using the discounted cash flow method, which entails the need to make estimates for future cash flows, changes in working capital and the weighted average cost of capital.

Detailed information on impairment tests has been provided in explanatory note 6.5.

For impairment testing purposes, goodwill arising from obtaining control over subsidiaries is allocated to the group of cash-generating units that constitute an operating segment.

The following table presents the amounts of goodwill as at 31 December 2019 and 31 December 2018, in a breakdown to operating segments:

Goodwill	31 Dec. 2019 PLN'000	31 Dec. 2018 PLN'000
<b>Goodwill at the beginning of the period</b>	<b>481,089</b>	<b>475,360</b>
Banking Solutions	198,983	194,330
Payment Solutions	106,696	106,449
Dedicated Solutions	175,410	174,581
<b>Change in consolidation goodwill due to the acquisition of shares (+/-)</b>	<b>70,292</b>	-
Banking Solutions	-	-
Payment Solutions	70,292	-
Dedicated Solutions	-	-
<b>Foreign exchange differences (+/-)</b>	<b>(11,716)</b>	<b>5,729</b>
Banking Solutions	(4,080)	4,653
Payment Solutions	(3,569)	247
Dedicated Solutions	(4,067)	829
<b>Total goodwill</b>	<b>539,665</b>	<b>481,089</b>
Banking Solutions	194,903	198,983
Payment Solutions	173,419	106,696
Dedicated Solutions	171,343	175,410
<b>Total as at 31 December</b>	<b>539,665</b>	<b>481,089</b>

In the period of 12 months ended 31 December 2019, the balance of goodwill arising from consolidation was affected by the following transactions:

#### i. Acquisition of shares in Necomplus S.L. based in Alicante

On 29 January 2019, the Company signed an agreement to acquire a 67.66% stake in the share capital of Necomplus, for a total consideration of PLN 32,888.5 thousand. In accordance with the acquisition agreement, the payment for these shares shall be made in three instalments:

- the first instalment amounting to PLN 23,020.7 thousand was paid on the transaction date;
- the second instalment amounting to PLN 4,936.1 thousand was paid one year after the transaction date;
- the third instalment amounting to PLN 4,931.8 thousand shall be paid till the second anniversary of the transaction date.

The acquisition of these shares is financed with own funds with the option of partial refinancing with a bank loan in the future.

Concurrently, ASEE signed an agreement with the shareholders of Necomplus, based on the existing agreement concluded by the seller, among others providing for a put option reserved for minority shareholders. The amount of liabilities under put options has been disclosed in explanatory note 6.15.

Because the acquisition of shares in Necomplus represents a transaction under common control, it has been accounted for in the consolidated financial statements of ASEE Group based on the values of assets and liabilities that were disclosed in the consolidated financial statements of Asseco Poland Group as at the acquisition date. The values of assets and liabilities of Necomplus Group as at the acquisition date were as follows (converted at the exchange rate of PLN/EUR effective as at the acquisition date):

	Fair values as at the acquisition date PLN'000
<b>Assets acquired</b>	
Property, plant and equipment	6,132
Intangible assets	4,491
Right-of-use assets	8,737
Goodwill	7,568
Trade receivables	15,376
Receivables from the state and local budgets	4,826
Inventories	14,800
Cash and cash equivalents	14,878
Other assets	5,251
<b>Total assets</b>	<b>82,059</b>
<b>Liabilities acquired</b>	
Bank loans and borrowings	9,566
Lease liabilities	9,600
Trade payables	26,614
Liabilities to the state and local budgets	3,073
Prepayments and accrued income	5,518
Other liabilities	1,779
<b>Total liabilities</b>	<b>56,150</b>
<b>Net assets value</b>	<b>25,909</b>
<b>Equity interest acquired</b>	67.66%
<b>Value of non-controlling interests</b>	8,466
<b>Purchase price</b>	<b>32,889</b>
<b>Goodwill taken over from Asseco Poland</b>	<b>8,870</b>
<b>Purchase price recognized in equity</b>	<b>6,576</b>

In the consolidated financial statements of ASEE Group, goodwill arising from the acquisition of Necomplus Group was allocated to the Payment Solutions segment.

The acquisition-related costs in the amount of PLN 334 thousand have been recognized in financial expenses.

*ii. Acquisition of shares in Multicard d.o.o.*

On 17 April 2019, Payten Serbia signed an agreement to purchase a 36.30% stake in the share capital of Multicard d.o.o. As a result of this transaction, the equity interest held by Payten Serbia in Multicard increased from 63.7% to 100%, and the Group obtained control over the acquired company. Consequently, Multicard is treated as a subsidiary company and it is fully consolidated. Until the date of obtaining control, that company was accounted for using the equity method.

The transaction price amounted to EUR 269.4 thousand (PLN 1,154 thousand). Moreover, due to obtaining control over Multicard, the value of investment in this company as at the transaction date was remeasured, which resulted in the recognition of a gain of PLN 2 million in financial income.

As at 31 December 2019, the process of purchase price allocation has already been completed by the Group. The fair values of identifiable assets and liabilities of Multicard as at the date of obtaining control were as follows (converted at the exchange rate of PLN/RSD effective as at the acquisition date):

	Fair values as at the acquisition date PLN'000
<b>Assets acquired</b>	
Property, plant and equipment	4
Trade receivables	304
Receivables from the state and local budgets	160
Cash and cash equivalents	82
<b>Total assets</b>	<b>550</b>
<b>Liabilities acquired</b>	
Trade payables	442
Liabilities to the state and local budgets	28
Other liabilities	21
<b>Total liabilities</b>	<b>491</b>
<b>Net assets value</b>	<b>59</b>
<b>Equity interest acquired</b>	<b>36.3%</b>
<b>Purchase price</b>	<b>1,154</b>

Fair value of equity interest held	2,032
Goodwill as at the acquisition date	3,127

In the consolidated financial statements of ASEE Group, goodwill arising from the acquisition of Multicard was allocated to the Payment Solutions segment.

**iii. Acquisition of shares in Bassilichi CEE d.o.o. Belgrade**

On 30 July 2019, Payten d.o.o. Belgrade obtained control over 100% of shares in the company Bassilichi CEE d.o.o. Belgrade.

The transaction price amounted to EUR 1.

Until 31 December 2019, the process of purchase price allocation has not yet been completed by the Group. Therefore, goodwill recognized on the acquisition of Bassilichi may still be subject to change.

The provisional values of identifiable assets and liabilities of Bassilichi as at the date of obtaining control were as follows (converted at the exchange rate of PLN/RSD effective as at the acquisition date):

	Provisional values as at the acquisition date PLN'000
<b>Assets acquired</b>	
Property, plant and equipment	4,094
Right-of-use assets	8,397
Trade receivables	3,502
Receivables from the state and local budgets	33
Inventories	1,496
Cash and cash equivalents	66
Other assets	752
<b>Total assets</b>	<b>18,340</b>
<b>Liabilities acquired</b>	
Bank loans and borrowings	4,900
Lease liabilities	8,029
Trade payables	8,671
Liabilities to the state and local budgets	672
Other liabilities	180
<b>Total liabilities</b>	<b>22,452</b>
<b>Net assets value</b>	<b>(4,112)</b>
<b>Equity interest acquired</b>	100.00%
<b>Purchase price</b>	-
<b>Goodwill as at the acquisition date</b>	<b>4,112</b>

In the consolidated financial statements of ASEE Group, goodwill arising from the acquisition of Bassilichi was allocated to the Payment Solutions segment.

The acquisition-related costs in the amount of PLN 179 thousand have been recognized in financial expenses.

**iv. Acquisition of shares in B Services d.o.o. Podgorica**

On 31 July 2019, Payten d.o.o. Podgorica signed an agreement to acquire 100% of shares in the company B Services d.o.o. Podgorica.

The transaction price amounted to EUR 414.9 thousand (PLN 1,781 thousand).

Until 31 December 2019, the process of purchase price allocation has not yet been completed by the Group. Therefore, goodwill recognized on the acquisition of B Services may still be subject to change.

The provisional values of identifiable assets and liabilities of B Services as at the date of obtaining control were as follows (converted at the exchange rate of PLN/EUR effective as at the acquisition date):

	Provisional values as at the acquisition date PLN'000
<b>Assets acquired</b>	
Property, plant and equipment	717
Intangible assets	13
Right-of-use assets	253
Trade receivables	69
Inventories	30
Cash and cash equivalents	618
Other assets	124
<b>Total assets</b>	<b>1,824</b>
<b>Liabilities acquired</b>	
Bank loans and borrowings	837
Lease liabilities	262
Trade payables	172
Liabilities to the state and local budgets	60
Provisions	124
Other liabilities	34
<b>Total liabilities</b>	<b>1,489</b>
<b>Net assets value</b>	<b>335</b>
<b>Equity interest acquired</b>	100.00%
<b>Purchase price</b>	<b>1,781</b>
<b>Goodwill as at the acquisition date</b>	<b>1,446</b>

In the consolidated financial statements of ASEE Group, goodwill arising from the acquisition of B Services was allocated to the Payment Solutions segment.

#### **v. Acquisition of shares in Mobven Teknoloji A.S.**

On 9 August 2019, Payten Teknoloji A.S. signed an agreement to acquire 100% of shares in the company Mobven Teknoloji A.S. based in Istanbul. ASEE Group obtained control over Mobven company on 3 September 2019 upon satisfying all the conditions precedent.

The purchase price amounted to USD 7 million (PLN 28 million), of which USD 1.9 million (PLN 7.6 million) was paid on the transaction date, and the remaining amount constituted a deferred conditional payment depending on the financial results achieved by that company.

Until 31 December 2019, the process of purchase price allocation has not yet been completed by the Group. Therefore, goodwill recognized on the acquisition of Mobven may still be subject to change.

The provisional values of identifiable assets and liabilities of Mobven as at the date of obtaining control were as follows (converted at the exchange rate of PLN/TRY effective as at the acquisition date):

	Provisional values as at the acquisition date PLN'000
<b>Assets acquired</b>	
Property, plant and equipment	858
Intangible assets	901
Right-of-use assets	463
Trade receivables	1,538
Receivables from the state and local budgets	39
Prepayments and accrued income	55
Cash and cash equivalents	1,041
Other assets	120
<b>Total assets</b>	<b>5,015</b>
<b>Liabilities acquired</b>	
Bank loans and borrowings	32
Lease liabilities	463
Trade payables	8
Liabilities to the state and local budgets	277

Prepayments and accrued income	281
Other liabilities	402
<b>Total liabilities</b>	<b>1,463</b>
<b>Net assets value</b>	<b>3,552</b>
<b>Equity interest acquired</b>	100.00%
<b>Purchase price</b>	<b>27,965</b>
<b>Goodwill as at the acquisition date</b>	<b>24,413</b>

In the consolidated financial statements of ASEE Group, goodwill arising from the acquisition of Mobven was allocated to the Payment Solutions segment.

The acquisition-related costs in the amount of PLN 76 thousand have been recognized in financial expenses.

**vi. Acquisition of shares in Sonet spol. s.r.o. and Sonet Slovakia s.r.o.**

On 5 September 2019, Payten Sp. z o.o. sp.k. based in Warsaw signed an agreement to acquire 100% of shares in the company Sonet spol. s.r.o. based in Brno as well as 50% of shares in the company Sonet Slovakia s.r.o. based in Bratislava, in which the remaining 50% stake is held by Sonet spol. s.r.o. based in Brno, for the total consideration of EUR 4 million, increased by EUR 1.4 million of net cash surplus as at the transaction closing date as determined in the agreement, and possible conditional payments up to the amount of EUR 0.2 million depending on the achievement of target financial results by Sonet.

Until 31 December 2019, the process of purchase price allocation has not yet been completed by the Group. Therefore, goodwill recognized on the acquisition of Sonet Group may still be subject to change.

The provisional values of identifiable assets and liabilities of Sonet Group as at the date of obtaining control were as follows (converted at the exchange rate of PLN/CZK effective as at the acquisition date):

	Provisional values as at the acquisition date PLN'000
<b>Assets acquired</b>	
Property, plant and equipment	1,806
Intangible assets	958
Right-of-use assets	873
Trade receivables	4,355
Receivables from the state and local budgets	118
Inventories	248
Cash and cash equivalents	8,879
Other assets	321
<b>Total assets</b>	<b>17,558</b>
<b>Liabilities acquired</b>	
Bank loans and borrowings	244
Lease liabilities	873
Trade payables	919
Liabilities to the state and local budgets	484
Other liabilities	538
<b>Total liabilities</b>	<b>3,058</b>
<b>Net assets value</b>	<b>14,500</b>
<b>Equity interest acquired</b>	100.00%
<b>Purchase price</b>	<b>24,382</b>
<b>Goodwill as at the acquisition date</b>	<b>9,882</b>

In the consolidated financial statements of ASEE Group, goodwill arising from the acquisition of Sonet Group was allocated to the Payment Solutions segment.

**vii. Acquisition of shares in Monri Group d.o.o.**

On 8 October 2019, Payten d.o.o. Sarajevo concluded a conditional agreement to acquire 80% of shares in Monri Group d.o.o. for the total consideration of EUR 1.96 million. The Group obtained control over Monri Group d.o.o. on 15 November 2019 upon satisfying all the conditions precedent. Monri Group holds 100% of shares in the company Monri Payments d.o.o. Zagreb.

Payten d.o.o. Sarajevo also signed a put option agreement with the non-controlling shareholders of Monri. The amount of liabilities under put options has been disclosed in explanatory note 6.15.



Until 31 December 2019, the process of purchase price allocation has not yet been completed by the Group. Therefore, goodwill recognized on this acquisition may be subject to change in the period of 12 months from the date of obtaining control over that company. The provisional values of identifiable assets and liabilities of Monri Group as at the date of obtaining control were as follows (converted at the exchange rate of PLN/BAM effective as at the acquisition date):

	Provisional values as at the acquisition date PLN'000
<b>Assets acquired</b>	
Property, plant and equipment	76
Goodwill	691
Trade receivables	637
Receivables from the state and local budgets	94
Inventories	2
Cash and cash equivalents	495
Other assets	229
<b>Total assets</b>	<b>2,224</b>
<b>Liabilities acquired</b>	
Bank loans and borrowings	2,565
Trade payables	848
Liabilities to the state and local budgets	79
Prepayments and accrued income	427
Other liabilities	530
<b>Total liabilities</b>	<b>4,449</b>
<b>Net assets value</b>	<b>(2,225)</b>
<b>Equity interest acquired</b>	<b>80%</b>
<b>Value of non-controlling interests</b>	<b>(445)</b>
<b>Purchase price</b>	<b>8,359</b>
<b>Goodwill as at the acquisition date</b>	<b>10,139</b>

In the consolidated financial statements of ASEE Group, goodwill arising from the acquisition of Monri Group was allocated to the Payment Solutions segment.

## 6.5. Impairment tests

### *Selected accounting policies*

At each reporting date, the Group determines whether there are any indications of impairment of non-financial fixed assets. In the event such indications occur, or when it is necessary to carry out an annual impairment test, the Group estimates the recoverable amount of a given asset or cash-generating unit to which such asset has been allocated.

The recoverable amount of an asset or cash-generating unit corresponds to the fair value of such asset or cash-generating unit less the costs necessary to make the sale of such asset or cash-generating unit, or to the value in use of such asset or cash-generating unit, whichever is higher. This recoverable amount is measured for individual assets unless a given asset does not generate cash flows significantly independent from cash flows generated by other assets or groups of assets. Impairment takes place when the carrying value of an asset is higher than its recoverable amount, in which case such asset shall be written-down to the determined recoverable amount. In order to determine the value in use, estimated future cash flows shall be discounted to their present value by applying a discount rate that reflects the current market assessments of the time value of money and the risks related to the given asset. Impairment losses on assets used in continuing operations are recognized as operating expenses.

At each reporting date, the Group determines whether there are any indications for reversal or reduction of an impairment charge that was recognized on a given asset in the prior periods. If such indications exist, the Group needs to estimate the recoverable amount of the relevant asset. A formerly recognized impairment charge may be reversed only when estimates applied for determination of the recoverable amount of the relevant asset have changed since the time of the last recognition of impairment. If this is the case, the carrying value of such asset shall be increased to its recoverable amount. The increased amount cannot exceed the given asset's book value (net of depreciation) that would be carried in case no impairment charge was recognized on such asset in the prior years. A reversal of an impairment charge shall be immediately recognized as a reduction of operating expenses. Following a reversal of an impairment loss, the depreciation charges made on the relevant asset during subsequent financial periods shall be adjusted in such a way as to enable systematic depreciation of the asset's verified book value (net of residual value) over the remaining period of its useful life.

### **Goodwill – impairment tests**

After initial recognition, goodwill is accounted for at purchase cost less any accumulated impairment charges. Goodwill is tested for impairment on an annual basis, or more frequently if there are indications to do so. Goodwill is not subject to amortization. As at the acquisition date, the acquired goodwill is allocated to every cash-generating unit which may benefit from synergy effects of the related business combination. Each cash-generating unit or group of units to which goodwill is so allocated shall represent the lowest level within the Group at which goodwill is monitored for internal management purposes; and not be larger than any operating segment identified in accordance with IFRS 8 'Operating Segments'. An impairment loss is determined by estimating the recoverable amount of a cash-generating unit to which goodwill has been allocated. In the event the recoverable amount of a cash-generating



*unit is lower than its carrying value, an impairment charge shall be recognized. It is not possible to reverse any impairment loss that was previously recognized on goodwill.*

*In the event a cash-generating unit contains goodwill and a part of business of this cash-generating unit is sold, goodwill related to the disposed business shall be included in its carrying value for the purpose of determining a gain or loss on disposal of that business. In such circumstances the value of goodwill sold shall be measured as a proportion of the value of business disposed to the value of the cash-generating unit retained.*

#### *Estimates*

*Each impairment test requires making estimates of the value in use of cash-generating units or groups of cash-generating units to which goodwill and/or intangible assets with indefinite useful life have been allocated. The value in use is estimated by determining both the future cash flows expected to be achieved from the cash-generating unit or units and a discount rate to be subsequently used in order to calculate the net present value of those cash flows.*

Goodwill is presented in the consolidated financial statements in a breakdown corresponding to the Group's operating segments, i.e. Banking Solutions, Payment Solutions, and Dedicated Solutions.

Goodwill is subject to impairment testing on an annual basis and it was tested for impairment as at 31 December 2019.

The starting point for determining the value of cash generating units to which goodwill has been allocated was to estimate the recoverable amount of our investments in subsidiaries, in a breakdown to business units assigned to respective business units at the Group level (i.e. operating segments). Subsequently, the recoverable amounts of individual business units from various subsidiaries were aggregated by operating segments to which they were assigned, together creating the value of the cash-generating unit to which goodwill was allocated.

The recoverable amount of investments in subsidiaries as at 31 December 2019 was determined on the basis of their value in use, applying the forecasted free cash flow to firm (FCFF) based on the financial forecasts approved by our management personnel. The residual value was determined assuming no real growth of the achieved margins after the forecast period.

The calculations were based on the following uniform assumptions:

- the so-called business units were analyzed which, when put together, comprise the budgets and forecasts of individual subsidiaries;
- the detailed forecast covered the period of 5 years at minimum. The first year data were adopted based on the budgets, while forecasted changes in cash flows were assumed for subsequent years. The residual value for later operations of each subsidiary was computed assuming no real changes in cash flows;
- the assumed changes in cash flows depend upon the strategy of the entire Group and plans of individual companies, taking due account of conditions prevailing in particular geographical markets and sectors, and at the same time reflecting the present and potential order backlog. The potential order backlog presumes gaining new clients whilst keeping the present ones. The assumed changes are not materially different from average growth observed in relevant markets;
- the forecasts for foreign subsidiaries assumed growth in their functional currencies, after converting revenues forecasted in the local currency for each market in which the given segment operates to PLN at the exchange rate of 31 December 2019, the rate of revenue growth calculated as the compound annual growth rate (CAGR) in the period of detailed forecast equalled: 4.91% for Banking Solutions, 8.99% for Payment Solutions, and 2.92% for Dedicated Solutions;
- the discount rates applied were equivalent to the weighted average cost of capital determined for individual subsidiaries (a single discount rate was applied for different business segments within one subsidiary). Particular components of the adopted discount rates were determined taking into account the market values of risk-free interest rates, the beta coefficient leveraged to reflect the average market debt/equity ratio, as well as the expected market yield, and depending on the operating market of a given segment section ranged from 9.2% to 22.8%.

Based on the conducted tests, we did not recognize any impairment losses on goodwill in the year ended 31 December 2019 or in the comparable period.

Additionally, the Parent Company carried out a sensitivity analysis of the impairment tests conducted on goodwill arising from the acquisition of shares in its subsidiaries. The analysis of sensitivity shows how much the recoverable amount is going to change if the discount rate is increased by 1 pp with other assumptions remaining constant, or if the revenue growth rate is decreased by 1 pp with other assumptions remaining constant.

The results of such sensitivity analysis carried out as at 31 December 2019 are presented in the following table:

	Discount rate Change by 1 pp	Sales revenue growth rate Change by 1 pp
Banking Solutions	(44,973)	(25,490)
Payment Solutions	(52,704)	(43,517)
Dedicated Solutions	(31,114)	(40,574)

Any reasonable modification of the key assumptions adopted in the model of valuation of goodwill allocated to our operating segments should not indicate a necessity of recognizing any goodwill impairment charges.

## 6.6. Other financial assets

### *Selected accounting policies*

The Group classifies its financial assets to the following measurement categories specified in IFRS 9:

- measured at fair value through other comprehensive income
- measured at amortized cost
- measured at fair value through profit or loss.

The Group classifies its financial assets based on the Group's business model for managing financial assets and considering the characteristics of contractual cash flows for a particular financial asset. The Group reclassifies its investments in debt securities if, and only if, the model adopted for managing such assets is modified.

At initial recognition, the Group classifies its investments in equity instruments (other than investments in subsidiaries and associates), which are not held for trading and not quoted in an active market, as measured at fair value through other comprehensive income.

Whereas, investments in derivative instruments and equity instruments quoted in an active market are measured at fair value through profit or loss.

#### **Measurement at initial recognition**

With the exception of some trade receivables, the Group's financial assets are initially recognized at fair value. In the case of financial assets that are not classified as measured at fair value through profit or loss, at the time of initial recognition, the entity may increase their fair value by transaction costs directly attributable to their acquisition.

#### **Measurement after initial recognition**

##### Measurement of financial assets at amortized cost

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that are measured by the Group at amortized cost include: cash and cash equivalents, loans granted (which pass the SPPI classification test), assets from contracts with customers, trade receivables, as well as other receivables which are in the scope of IFRS 9.

Trade receivables with a maturity of less than 12 months are measured at an amount due for payment, less any allowance for expected losses. Long-term receivables that are within the scope of IFRS 9 are discounted as at the reporting date.

The Group measures its financial assets at amortized cost using the effective interest method.

Interest income on investments in debt securities is recognized by the Group as financial income. On disposal of investments in debt securities, the Group recognizes cumulative gains/losses through profit or loss.

##### Measurement of financial assets at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that are measured by the Group at fair value through other comprehensive income include: treasury and corporate bonds, as well as investments in equity instruments of companies not quoted in an active market.

Interest income on investments in debt securities is recognized by the Group as financial income. Dividends on equity instruments measured at fair value through other comprehensive income are recognized by the Group as financial income.

On disposal of investments in debt securities, the Group recognizes cumulative gains/losses through profit or loss. At the time of derecognition of an investment in equity instruments measured at fair value through other comprehensive income, cumulative gains or losses arising from the fair value measurement of that investment that were previously recognized in other comprehensive income, are not reclassified by the Group to profit or loss. However, such revaluation gains and losses may be transferred to another item within equity, for example to retained earnings.

##### Measurement of financial assets at fair value through profit or loss

Changes in the fair values of financial assets classified to this category are recognized by the Group through profit or loss. Interest income and dividends received on equity instruments quoted in an active market are recognized as financial income.

**Derecognition**

A financial asset is derecognized by the Group when: (i) the contractual rights to the cash flows from the financial asset expire, or (ii) the contractual rights to the cash flows from the financial asset have been transferred by the Group along with substantially all the risks and rewards of ownership of the financial asset.

**Impairment of financial assets**

IFRS 9 introduced a new model for estimating impairment losses on financial assets. The model of incurred losses as required by IAS 39 has been replaced with the model of impairment based on expected losses.

The expected loss impairment model applies to financial assets measured at amortized cost as well as to financial assets measured at fair value through other comprehensive income, except for investments in equity instruments.

In order to estimate impairment losses on financial assets, the Group applies the following approaches:

- general approach,
- simplified approach.

The Group applies the general approach for financial assets measured at fair value through other comprehensive income as well as for financial assets measured at amortized cost, except for receivables and contract assets.

Under the general approach, the Group estimates impairment losses on financial assets using a three-stage model based on changes in the credit risk of financial assets since their initial recognition.

Where the credit risk of financial assets has not increased significantly since initial recognition (stage 1), the Group estimates an allowance for 12-month expected credit losses. Where the credit risk of financial assets has increased significantly since initial recognition (stages 2 and 3), the Group estimates an allowance for expected credit losses over the lifetime of financial instruments.

At each reporting date, the Group analyzes if there are indications of a significant increase in the credit risk of financial assets held.

In the case of trade receivables and assets from contracts with customers, the Group applies the simplified approach and therefore changes in credit risk are not monitored, while an impairment allowance is measured at an amount equal to expected credit losses over the lifetime of receivables. Detailed information on estimating impairment losses has been provided in explanatory note 6.8 to these consolidated financial statements.

Both as at 31 December 2019 and 31 December 2018, apart from receivables and cash and cash equivalents described in other notes, the Group also held other financial assets as presented in the table below.

	31 Dec. 2019		31 Dec. 2018	
	Long-term PLN'000	Short-term PLN'000	Long-term PLN'000	Short-term PLN'000
<b>Financial assets carried at fair value through profit or loss, of which:</b>				
Currency forward contracts	109	-	-	152
Other assets	-	4	-	-
	<b>109</b>	<b>4</b>	<b>-</b>	<b>152</b>
<b>Financial assets carried at fair value through other comprehensive income, of which:</b>				
Shares in companies quoted in an active market	53	25	45	26
Shares in companies not quoted in an active market	20	-	21	-
	<b>73</b>	<b>25</b>	<b>66</b>	<b>26</b>
<b>Financial assets carried at amortized cost, of which:</b>				
<i>Loans granted, of which:</i>				
granted to employees	-	13	-	-
granted to other entities	-	3	-	91
Short-term deposits	4,488	527	522	3,492
	<b>4,488</b>	<b>543</b>	<b>522</b>	<b>3,583</b>
<b>Total</b>	<b>4,670</b>	<b>572</b>	<b>588</b>	<b>3,761</b>

Both as at 31 December 2019 and 31 December 2018, financial assets carried at fair value through profit or loss included currency forward contracts held by ASEE S.A. and ASEE Romania. The fair value of currency forward contracts is determined at each reporting date using calculation models based on inputs that are directly observable in active markets.

The line of 'Financial assets carried at amortized cost – cash deposits' includes term bank deposits with an original maturity of more than 3 months that are held by ASEE Macedonia. These cash deposits, to a large extent, serve as collateral for a bank guarantee used under an IT project that is implemented for a public administration institution.

**Changes in the fair value measurement of financial instruments carried at fair value, and changes in the classification of financial instruments**

In the period of 12 months ended 31 December 2019, the Group did not change its methods for measuring the fair value of financial instruments carried at fair value nor did it transfer any instruments between individual levels of the fair value hierarchy.

Both as at 31 December 2019 and 31 December 2018, the fair values of financial assets were not significantly different from their book values.

As at 31 December 2019	Carrying value PLN'000	Level 1 <sup>i)</sup> PLN'000	Level 2 <sup>ii)</sup> PLN'000	Level 3 <sup>iii)</sup> PLN'000
<b>Financial assets carried at fair value through profit or loss</b>				
Currency forward contracts	109	-	109	-
Other assets	4	-	-	4
<b>Total</b>	<b>113</b>	<b>-</b>	<b>109</b>	<b>4</b>
<b>Financial assets carried at fair value through other comprehensive income</b>				
Shares in companies quoted in an active market	78	78	-	-
Shares in companies not listed on regulated markets	20	-	-	20
<b>Total</b>	<b>98</b>	<b>78</b>	<b>-</b>	<b>20</b>

- i. fair value determined on the basis of quoted prices offered in active markets for identical assets;
- ii. fair value determined using calculation models based on inputs that are observable, either directly or indirectly, in active markets;
- iii. fair value determined using calculation models based on inputs that are not observable, neither directly or indirectly, in active markets.

As at 31 December 2018	Carrying value PLN'000	Level 1 <sup>i)</sup> PLN'000	Level 2 <sup>ii)</sup> PLN'000	Level 3 <sup>iii)</sup> PLN'000
<b>Financial assets carried at fair value through profit or loss</b>				
Currency forward contracts	152	-	152	-
<b>Total</b>	<b>152</b>	<b>-</b>	<b>152</b>	<b>-</b>
<b>Financial assets available for sale</b>				
Shares in companies not listed on regulated markets	71	71	-	-
Shares in companies quoted in an active market	21	-	-	21
<b>Total</b>	<b>92</b>	<b>71</b>	<b>-</b>	<b>21</b>

Descriptions of the fair value hierarchy levels are identical to those provided under the previous table.

## 6.7. Prepayments and accrued income

### Selected accounting policies

Prepayments comprise expenses incurred before the end of the reporting period that relate to future periods or to future revenues. Prepayments include in particular: (i) prepaid third-party services (inclusive of maintenance services) which shall be provided in future periods, (ii) advance payments of insurance, subscription, rental fees, etc., and (iii) any other expenses incurred in the current period but related to future periods.

Moreover, the Group capitalizes the costs incurred in obtaining a contract with a customer or in fulfilling a contract with a customer, if those costs are expected to be recovered by the Group.

#### Costs of contracts with customers

The costs of obtaining a contract are those additional (incremental) costs incurred by the Group in order to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Group recognizes such costs as an asset if it expects to recover those costs. Such capitalized costs of obtaining a contract shall be amortized over a period when the Group satisfies the performance obligations arising from the contract.

As a practical expedient, the Group recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Group would have otherwise recognized is one year or less.

Costs to fulfil a contract are the costs incurred in fulfilling a contract with a customer. The Group recognizes such costs as an asset if they are not within the scope of another standard (for example, IAS 2 'Inventories', IAS 16 'Property, Plant and Equipment' or IAS 38 'Intangible Assets') and if those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract with a customer,
- the costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future, and
- the costs are expected to be recovered by the Group.

As at 31 December 2019 and 31 December 2018, prepayments and accrued income included the following items:

	31 Dec. 2019		31 Dec. 2018	
	Long-term PLN'000	Short-term PLN'000	Long-term PLN'000	Short-term PLN'000
Prepaid services, of which:	613	20,162	27	14,069
<i>maintenance services and license fees</i>	560	17,543	27	11,585
<i>insurances</i>	-	783	-	528
<i>rents and averaging of instalments under operating leases</i>	-	340	-	229
<i>prepaid consulting services</i>	-	116	-	38
<i>other services</i>	53	1,380	-	1,689
Expenses related to services performed for which revenues have not been recognized yet	-	153	-	92
Other prepayments and accrued income	1	1,431	607	1,103
<b>Total</b>	<b>614</b>	<b>21,746</b>	<b>634</b>	<b>15,264</b>

## 6.8. Receivables and contract assets

### Selected accounting policies

**Contract assets** represent the right to payment in exchange for goods or services that the entity transferred to the customer.

Contract assets include receivables arising from valuation of IT contracts and from uninvoiced deliveries. Receivables from valuation of IT contracts result from the excess of the percentage of completion of implementation contracts over invoices issued. In the case of such assets, the Group has fulfilled its performance obligation but the right to payment is conditioned on something other than just the passage of time, which distinguishes contract assets from trade receivables. Receivables from uninvoiced deliveries arise from the supply of services which were performed during the reporting period (the Group has completed its performance obligation), but have not been invoiced until the end of the reporting period.

**Trade receivables** represent receivables arising from the sale of goods and services, as well as receivables from operating leases. Trade receivables, usually with payment terms ranging from 14 and 30 days, are recognized and disclosed at the amounts initially invoiced, less any allowances for doubtful receivables. Receivables with remote payment terms are recognized at the present value of expected payments, less any allowances for expected credit losses.

#### Allowances for trade receivables

In estimating an allowance for trade receivables, the Company applies the simplified approach whereby the impairment allowance is measured at an amount equal to expected credit losses over the lifetime of receivables. In order to estimate such expected credit losses, the Group uses a provisioning matrix prepared on the basis of historical payments received from customers, where appropriate adjusted by the impact of forward-looking information. For this purpose, the Group allocates its customers into homogeneous groups from which receivables are statistically analyzed in respect of aging and collection, based on data from minimum 2 years back.

The amount of impairment allowances is revised at each reporting date.

For trade receivables that are past-due more than 180 days, apart from the statistical method of estimating the amount of impairment loss based on the provisioning matrix, the Group also applies individual approach. For each amount of trade receivables that is significant and past-due more than 180 days, the management shall exercise professional judgment taking into account the

contractor's financial standing and general market conditions.

Impairment allowances for trade receivables and contract assets are recognized under operating activities.

In the case of other receivables and other financial assets, impairment allowances are measured at an amount equal to the 12-month expected credit losses. Where the credit risk on a financial instrument has increased significantly since initial recognition, the Group shall measure the loss allowance for that financial instrument at an amount equal to the lifetime expected credit losses.

Allowances for other receivables are recognized under other operating activities or under financial activities if such receivables resulted from the sale of investments or other activities whose costs and revenues are by principle disclosed in financial activities.

Allowances for accrued interest receivable are recognized as financial expenses.

If the cause for recognition of an allowance is no longer valid, such allowance shall be reversed in the whole amount or appropriate portion, and increase in the value of the relevant asset.

#### Estimates

Each time, the Group exercises professional judgment involving the assessment of the percentage of completion of IT implementation contracts in relation to invoices issued. Similarly, a certain amount of estimates and professional judgment is needed in allocating the transaction price to individual performance obligations, which in turn affects the recognition of receivables/assets from contracts with customers.

The Group estimates the amount of allowances for receivables and assets from contracts with customers in accordance with the new requirements of IFRS 9 'Financial Instruments'. In the simplified approach, this requires a statistical analysis which in principle involves making certain assumptions and applying professional judgment.

The table below presents the amounts of receivables as at 31 December 2019 as well as at 31 December 2018.

	31 Dec. 2019		31 Dec. 2018	
	Long-term PLN'000	Short-term PLN'000	Long-term PLN'000	Short-term PLN'000
<b>Trade receivables, of which:</b>	-	<b>164,530</b>	<b>52</b>	<b>132,120</b>
<b>Trade receivables:</b>	-	<b>161,957</b>	<b>52</b>	<b>127,617</b>
from related parties	-	1,374	-	632
from other entities	-	160,583	52	126,985
<b>Receivables from operating leases</b>	-	<b>7,690</b>	-	<b>7,602</b>
<b>Allowances for trade receivables</b>	-	<b>(5,117)</b>	-	<b>(3,099)</b>
<b>Corporate income tax receivable</b>	-	<b>1,364</b>	-	<b>2,227</b>
<b>Receivables from the state and local budgets</b>	-	<b>2,008</b>	-	<b>1,355</b>
Value added tax	-	649	-	179
Other	-	1,359	-	1,176
<b>Other receivables</b>	<b>724</b>	<b>2,889</b>	<b>134</b>	<b>1,765</b>
Security deposits receivable	724	986	134	389
Other receivables	-	1,903	-	1,376
Allowance for other doubtful receivables	-	-	-	-
<b>Total receivables</b>	<b>724</b>	<b>170,791</b>	<b>186</b>	<b>137,467</b>

The table below presents receivables from contracts with customers as at 31 December 2019 as well as at 31 December 2018.

Contract assets	31 Dec. 2019		31 Dec. 2018	
	Long-term PLN'000	Short-term PLN'000	Long-term PLN'000	Short-term PLN'000
<b>Uninvoiced receivables</b>	-	<b>8,667</b>	-	<b>8,589</b>
from related parties	-	-	-	-
from other entities	-	8,667	-	8,589
<b>Receivables from valuation of IT contracts</b>	-	<b>19,383</b>	-	<b>10,433</b>
from related parties	-	-	-	-
from other entities	-	19,383	-	10,433
<b>Total contract assets</b>	-	<b>28,050</b>	-	<b>19,022</b>

During the period of 12 months ended 31 December 2019, assets from contracts with customers changed as follows:

	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
	PLN'000	PLN'000
<b>Contract assets as at 1 January</b>	<b>19,022</b>	<b>21,467</b>
Reclassification of contract assets due to obtaining an unconditional right to payment	(39,398)	(29,838)
Fulfilment of new uninvoiced performance obligations; changes in estimated transaction prices, modification of other assumptions	48,568	27,220
Foreign exchange differences on translation of foreign operations	(142)	173
<b>Contract assets as at 31 December</b>	<b>28,050</b>	<b>19,022</b>

Related party transactions have been presented in explanatory note 6.20 to these consolidated financial statements.

The balance of other receivables includes, among others, receivables relating to guarantees of due performance of contracts (i.e. security in cash extended in favour of customers in order to compensate for their potential losses should we fail to fulfil any contractual obligations), receivables from disposal of tangible assets, receivables from security deposits paid-in, as well as other receivables.

The Group has an adequate policy in place that allows for selling products to reliable clients only. Owing to that, in the Management's opinion the credited sales risk would not exceed the level covered with allowances for doubtful receivables.

The table below presents the ageing structure of gross receivables (i.e. before allowances and discounts) as at 31 December 2019 and 31 December 2018.

	31 Dec. 2019		31 Dec. 2018	
	PLN'000	%	PLN'000	%
<b>Receivables not yet due</b>	<b>121,911</b>	<b>72%</b>	<b>115,304</b>	<b>85%</b>
<b>Past-due receivables</b>	<b>47,736</b>	<b>28%</b>	<b>19,967</b>	<b>15%</b>
Receivables past-due up to 3 months	28,733	17%	13,554	10%
Receivables past-due from 3 to 6 months	11,788	7%	2,511	2%
Receivables past-due from 6 to 12 months	4,052	2%	1,852	1%
Receivables past-due over 12 months	3,163	2%	2,050	2%
<b>Total trade receivables, gross (before allowances)</b>	<b>169,647</b>	<b>100%</b>	<b>135,271</b>	<b>100%</b>
<b>Allowances for trade receivables</b>	<b>(5,117)</b>		<b>(3,099)</b>	
<b>Book value of trade receivables</b>	<b>164,530</b>		<b>132,172</b>	

The Group has concluded that its assets from contracts with customers are not exposed to credit risk, and therefore it is not necessary to recognize any allowances for expected credit losses related to these assets.

Changes in the amount of allowances for trade receivables during the period of 12 months ended 31 December 2019 and in the comparable period are presented in the table below:

	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
	PLN'000	PLN'000
<b>Allowances for trade receivables</b>		
<b>As at 1 January</b>	<b>(3,099)</b>	<b>(3,393)</b>
Recognized during the reporting period	(5,524)	(2,324)
Utilized during the reporting period	1,323	845
Reversed during the reporting period	2,496	1,780
Acquisition of subsidiaries	(473)	-
Foreign exchange differences	160	(7)
<b>As at 31 December</b>	<b>(5,117)</b>	<b>(3,099)</b>



## 6.9. Inventories

### *Selected accounting policies*

The Group distinguishes two categories of inventories: goods for resale, and service parts (spare parts and computer hardware that have been purchased for the purposes of maintenance service contracts).

Inventories are measured by the Group at the lower of the following two values: purchase cost/production cost or net value realizable upon sale.

The initial value of service parts is expensed on a straight-line basis over the duration of the maintenance service contract, for which such parts have been purchased. The value of consumed inventories is measured using the specific identification method.

At each reporting date, the Group analyzes whether the carrying value of inventories is higher than or equal to their net realizable value. Impairment losses on inventories are recognized as operating expenses.

The table below presents inventories as at 31 December 2019 and in the comparable period:

Inventories	31 Dec. 2019	31 Dec. 2018
	PLN'000	PLN'000
Computer hardware, third-party software licenses and other goods for resale	39,146	18,823
Computer hardware, spare parts and other materials intended for the performance of repair/maintenance services	12,060	11,320
Impairment losses on inventories	(13,991)	(13,137)
<b>Total</b>	<b>37,215</b>	<b>17,006</b>

Changes in the amount of impairment losses on inventories during the period of 12 months ended 31 December 2019 and in the comparable period are presented in the table below:

Impairment losses on inventories	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
	PLN'000	PLN'000
<b>As at 1 January</b>	<b>(13,137)</b>	<b>(11,514)</b>
Recognized during the reporting period	(4,428)	(3,484)
Utilized during the reporting period	76	198
Reversed during the reporting period	5,243	1,930
Obtaining of control over subsidiaries	(1,904)	-
Foreign exchange differences	159	(267)
<b>As at 31 December</b>	<b>(13,991)</b>	<b>(13,137)</b>

## 6.10. Cash and cash equivalents

### *Selected accounting policies*

Cash and cash equivalents presented in the statement of financial position comprise cash at bank and on hand, short-term bank deposits with initial maturities not exceeding 3 months, and other highly liquid instruments.

The balance of cash and cash equivalents disclosed in the consolidated statement of cash flows consists of the above-defined cash and cash equivalents. For the purposes of the statement of cash flows, the Group decided not to include bank overdraft facilities (used as an element of financing for current operations) nor restricted cash in the balance of cash and cash equivalents.

The table below presents cash and cash equivalents as at 31 December 2019 and in the comparable period:

	31 Dec. 2019	31 Dec. 2018
	PLN'000	PLN'000
Cash at bank and on hand	139,854	79,956
Cash at split payment accounts	341	14
Short-term bank deposits (up to 3 months)	59,190	84,478
Cash in transit and other cash equivalents	278	439
<b>Total cash and cash equivalents as disclosed in the statement of financial position</b>	<b>199,663</b>	<b>164,887</b>
Interest accrued on cash and cash equivalents	(46)	(8)
Bank overdraft facilities utilized for current liquidity management	(8,956)	(40)



Total cash and cash equivalents as disclosed in the cash flow statement	190,661	164,839
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## 6.11. Share capital and share premium

### Share capital

The Parent Company's share capital as at 31 December 2019 and in the comparable period amounted to PLN 518,942,510.00 and has been fully paid up. The share capital is divided into 51,894,251 ordinary shares with a par value of PLN 10 each. The Parent Company has not issued any preference shares. The Parent Company's authorized capital is equal to its share capital.

### Share premium

Equity includes share premium in the amount of PLN 30,395 thousand arising from the issuances of shares of series L, M and N, which was decreased by the incurred share issuance costs of PLN 3,605 thousand (recognized in 2009), as well as share premium in the amount of PLN 11,759 thousand arising from the issuance of shares of series P, R and S, which was decreased by the incurred share issuance costs of PLN 84 thousand (recognized in 2010). The share premium was additionally increased by the amount of PLN 396 thousand due to the reversal of a provision for issuance related expenses, and decreased by other costs of PLN 36 thousand.

## 6.12. Non-controlling interests

### Selected accounting policies

For each acquisition of a subsidiary company, the Group measures the value of non-controlling interests as at the acquisition date using the method of proportionate share in identifiable net assets of the entity acquired, or at fair value.

The table below presents changes in non-controlling interests:

	31 Dec. 2019	31 Dec. 2018
	PLN'000	PLN'000
<b>At the beginning of the period</b>	<b>1,664</b>	<b>1,572</b>
Share in profits of subsidiaries	1,333	447
Acquisition of non-controlling interests	8,022	-
Transactions with non-controlling interests (including contingent financial liabilities to non-controlling shareholders (put options))	(9,520)	-
Increase of share capital in subsidiaries	1,119	-
Dividends paid out to non-controlling shareholders	(452)	(379)
Foreign exchange differences on translation of foreign operations	(115)	24
<b>At the end of the period</b>	<b>2,051</b>	<b>1,664</b>

The line of 'Acquisition of non-controlling interests' is related to the acquisitions of Necomplux and Monri companies, in which the Group holds 67.66% and 80% of shares, respectively.

The line of 'Transactions with non-controlling interests (including contingent financial liabilities to non-controlling shareholders (put options))' represents the reclassification of non-controlling interests (to which a portion of financial results and other changes in equity of subsidiaries attributable to non-controlling interests are allocated during a year) as a financial liability, as if such puttable equity instrument was redeemed on that date. This item is related to put options that were granted to non-controlling shareholders of our subsidiaries Necomplux and Monri.

### 6.13. Lease liabilities

#### Selected accounting policies

##### Lease liabilities – initial recognition

At the lease commencement date, the Group measures the lease liability at the present value of lease payments outstanding at that date. The lease payments are discounted by the Group using the incremental borrowing rate. The lease payments comprise: fixed payments (including in-substance fixed lease payments), less any lease incentives receivable; variable lease payments that depend on an index or a rate; amounts expected to be payable under residual value guarantees; the exercise price of a purchase option (if the Group is reasonably certain to exercise that option); and payments of penalties for terminating the lease (if the Group is reasonably certain to exercise that option).

Variable lease payments that do not depend on an index or a rate are immediately recognized as expenses in the period in which the event or condition that triggers those payments occurs.

##### Lease liabilities – subsequent measurement

In subsequent periods, the amount of the lease liability is reduced by the lease payments made and increased by interest accrued on that liability. Such interest is calculated by the Group using the incremental borrowing rate of the lessee, which constitutes the sum of the risk-free interest rate (being determined by the Group companies based on the quotations of relevant IRS derivatives or interest rates on government bonds for relevant currencies) and the credit risk premium for the Group companies (being quantified on the basis of margins offered to the Group companies on investment loans adequately secured with assets of these companies).

If a lease contract is subject to modification involving a change in the lease term, a revised amount of in-substance fixed lease payments, or a change in the assessment of an option to purchase the underlying asset, then the lease liability shall be remeasured to reflect such changes. Remeasurement of the lease liability requires making a corresponding adjustment to the right-of-use asset.

#### Estimates

The lease payments are discounted by the Group using the incremental borrowing rate that needs to be determined on the basis of the risk-free interest rate and the credit risk premium for the Group companies, which is quantified on the basis of margins offered to the Group companies on investment loans adequately secured with assets of these companies.

Some lease contracts contain options to extend or terminate the lease. The Group also concludes contracts for an indefinite period. The Management exercises judgment in order to determine the period over which it can be reasonably assumed that such contracts will be continued.

As at 31 December 2019, the Group was a lessee under lease contracts. Assets leased under such contracts included:

- office and warehouse space,
- locations for ATMs,
- cars,
- IT hardware,
- other assets.

The table below presents the amounts of lease liabilities as at 31 December 2019 as well as at 31 December 2018. Figures reported as at 31 December 2018 have been disclosed in accordance with IAS 17 (as described in explanatory note 2.5 to these consolidated financial statements) and they represent finance lease liabilities. Whereas, lease liabilities reported as at 31 December 2019 include all liabilities arising from contracts that used to be accounted for as finance leases and operating leases in accordance with IAS 17, which meet the definition of a lease under IFRS 16.

Financial liabilities	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	PLN'000	PLN'000	PLN'000	PLN'000
Leases of real estate	37,650	12,402	-	-
Leases of transportation vehicles	5,677	3,533	1,055	820
Leases of IT hardware	4,162	2,988	-	-
	<b>47,489</b>	<b>18,923</b>	<b>1,055</b>	<b>820</b>

#### Leases of real estate

The net value of office buildings which are held under lease contracts amounted to PLN 47,575 thousand as at 31 December 2019.

Future minimum cash flows and liabilities under leases of real estate are as follows:

	31 Dec. 2019 IFRS 16 PLN'000	31 Dec. 2018 IAS 17 PLN'000
<b>Minimum lease payments</b>		
in the period shorter than 1 year	14,134	-
in the period from 1 to 5 years	35,698	-
in the period longer than 5 years	4,052	-
<b>Future minimum lease payments</b>	<b>53,884</b>	-
<b>Future interest expenses</b>	<b>(3,832)</b>	-
<b>Present value of lease liabilities</b>	<b>50,052</b>	-
in the period shorter than 1 year	12,402	-
in the period from 1 to 5 years	33,756	-
in the period longer than 5 years	3,894	-
<b>Lease liabilities</b>	<b>50,052</b>	-

Within the Group, the average effective interest rate on the above-mentioned leases equalled 3.6% as at 31 December 2019.

#### ***Leases of cars, IT hardware and other assets***

The net value of IT hardware, cars and other assets which are held under lease contracts amounted to PLN 17,480 thousand as at 31 December 2019, as compared with PLN 1,820 thousand as at 31 December 2018. The aggregate future cash flows and liabilities under such leases of cars, IT hardware and other assets are as follows:

	31 Dec. 2019 IFRS 16 PLN'000	31 Dec. 2018 IAS 17 PLN'000
<b>Minimum lease payments</b>		
in the period shorter than 1 year	6,845	885
in the period from 1 to 5 years	10,413	1,094
in the period longer than 5 years	-	-
<b>Future minimum lease payments</b>	<b>17,258</b>	<b>1,979</b>
<b>Future interest expenses</b>	<b>(898)</b>	<b>(104)</b>
<b>Present value of lease liabilities</b>	<b>16,360</b>	<b>1,875</b>
in the period shorter than 1 year	6,521	820
in the period from 1 to 5 years	9,839	1,055
in the period longer than 5 years	-	-
<b>Lease liabilities</b>	<b>16,360</b>	<b>1,875</b>

Within the Group, the average effective interest rate on the above-mentioned leases equalled 3.9% as at 31 December 2019.

The table below presents the amounts of income, expenses, profits and losses arising from lease contracts that have been recognized in the consolidated income statement / statement of comprehensive income:

	31 Dec. 2019 PLN'000
Depreciation of right-of-use assets	(16,677)
Interest expenses on lease liabilities	(1,981)
Costs of short-term leases	(5,134)
Costs of leases of low-value assets	(269)
<b>Total amount recognized in the consolidated income statement</b>	<b>(24,061)</b>

In the year ended 31 December 2018, contingent lease payments expensed during the reporting period amounted to PLN 19,281 thousand.

## 6.14. Bank loans and borrowings

### Selected accounting policies

The Group classifies its financial liabilities to the following categories:

- measured at amortized cost,
- measured at fair value through profit or loss.

Financial liabilities measured by the Group at amortized cost include: bank loans, borrowings and debt securities. Other financial liabilities are measured by the Group at fair value through profit or loss, except for liabilities from the acquisition of non-controlling interests in subsidiaries (put options) that are accounted for in accordance with IFRS 3.

All bank loans and borrowings are initially recognized at their purchase cost, representing the fair value of cash received net of any transaction costs directly attributable to incurring financial liabilities.

Subsequently to initial recognition, bank loans and borrowings are measured at amortized cost using the effective interest method. Determination of the amortized cost shall take into account the costs related to obtaining a bank loan or borrowing, as well as any discounts or bonuses received upon repayment of the liability.

A financial liability is removed by the Group from its statement of financial position when it is extinguished, this is when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying value of a financial liability extinguished and the consideration paid, including any non-cash assets transferred, shall be recognized in profit or loss.

The table below presents the Group's debt outstanding as at 31 December 2019 and 31 December 2018.

	Currency	Repayment date	31 Dec. 2019		31 Dec. 2018	
			Long-term	Short-term	Long-term	Short-term
			PLN'000	PLN'000	PLN'000	PLN'000
<b>Bank overdraft facilities</b>			-	8,956	-	40
fixed interest rate	MKD	10.01.2020	-	60	-	40
fixed interest rate	TRY	02.01.2020	-	55	-	-
fixed interest rate	EUR	07.01.2020	-	125	-	-
fixed interest rate	COP	31.03.2020	-	58	-	-
fixed interest rate	EUR	31.01.2020	-	8,658	-	-
<b>Other bank loans</b>			<b>40,061</b>	<b>37,573</b>	<b>17,223</b>	<b>30,796</b>
-	TRY	01.01.2019	-	-	-	9
1M EURIBOR + margin	EUR	15.06.2020	-	4,516	-	9,982
1M EURIBOR + margin	EUR	31.07.2023	14,746	10,023	7,811	5,207
3M EURIBOR + margin	EUR	30.04.2019	-	-	-	1,204
3M EURIBOR + margin	EUR	30.06.2024	10,857	3,102	1,505	753
3M EURIBOR + margin	EUR	30.11.2022	2,590	1,682	2,839	946
3M EURIBOR + margin	EUR	21.09.2020	-	656	662	858
3M EURIBOR + margin	EUR	15.06.2019	-	-	-	6,609
3M EURIBOR + margin	EUR	28.06.2021	851	1,703	2,574	1,716
3M EURIBOR + margin	EUR	28.08.2021	227	341	572	286
3M EURIBOR + margin	EUR	21.09.2020	521	298	-	-
3M EURIBOR + margin	EUR	05.06.2023	1,895	757	-	-
6M EURIBOR + margin	EUR	30.04.2019	-	-	-	151
6M EURIBOR + margin	EUR	13.03.2020	-	110	112	443
6M EURIBOR + margin	EUR	31.12.2020	-	426	-	-
1Y EURIBOR + margin	EUR	30.06.2022	31	22	-	-
fixed interest rate	COP	30.06.2020	-	81	-	-
fixed interest rate	EUR	31.03.2021	227	908	1,148	916
fixed interest rate	EUR	02.04.2020	-	236	-	-
fixed interest rate	EUR	13.11.2019	-	-	-	1,716
fixed interest rate	EUR	04.06.2021	1,419	2,838	-	-
fixed interest rate	EUR	03.06.2022	3,831	2,554	-	-
fixed interest rate	EUR	02.07.2021	1,655	2,601	-	-
fixed interest rate	EUR	30.06.2024	1,211	3,784	-	-
fixed interest rate	EUR	27.09.2020	-	131	-	-
fixed interest rate	EUR	01.02.2020	-	56	-	-
fixed interest rate	EUR	31.12.2019	-	628	-	-
fixed interest rate	EUR	15.11.2020	-	120	-	-
<b>Borrowings</b>			<b>3,194</b>	<b>3,213</b>	-	-
3M EURIBOR + margin	EUR	30.06.2021	3,194	3,213	-	-
<b>Total</b>			<b>43,255</b>	<b>49,742</b>	<b>17,223</b>	<b>30,836</b>

The Group's total debt amounted to PLN 92,997 thousand as at 31 December 2019, as compared with PLN 48,059 thousand as at 31 December 2018. The amount of debt increased as a result of bank loans obtained for financing of our projects of payment processes outsourcing as well as for new company acquisitions.

Total proceeds from and repayments of bank loans disclosed in the statement of cash flows for the year 2019 amounted to PLN 54,477 thousand (proceeds) and PLN 32,606 thousand (repayments).

As at 31 December 2019, tangible assets with a book value of PLN 8,674 thousand and trade receivables in the amount of PLN 4,844 thousand served as collateral for bank loans. As at 31 December 2019, liabilities that were secured with such assets amounted to PLN 8,526 thousand.

As at 31 December 2018, tangible assets with a book value of PLN 1,076 thousand served as collateral for bank loans. As at 31 December 2018, liabilities that were secured with such assets amounted to PLN 9,982 thousand.

In the reporting period, the margins realized by lenders to ASEE Group companies ranged from 1.2 to 6.0 percentage points on an annual basis. Whereas, in the comparable period such margins ranged from 1.3 to 3.5 percentage points per annum.

Some loans obtained from banks come with the so-called covenants which impose an obligation to maintain certain financial ratios at the levels required by the bank. These ratios are related to the level of indebtedness, e.g. debt to EBITDA. Both as at 31 December 2019 and 31 December 2018, ASEE Group companies did not infringe any covenants defined in their loan agreements.

#### Fair value of financial liabilities

In the period of 12 months ended 31 December 2019, the Group did not transfer any debt instruments between individual levels of the fair value hierarchy.

Both as at 31 December 2019 and 31 December 2018, the fair values of bank loans were not significantly different from their book values.

As at 31 December 2019	Carrying value PLN'000	Level 1 <sup>i)</sup> PLN'000	Level 2 <sup>ii)</sup> PLN'000	Level 3 <sup>iii)</sup> PLN'000
<b>Interest-bearing bank loans</b>				
Bank loans	86,590	-	-	86,590
- overdraft facilities	8,956	-	-	8,956
- non-revolving loans	77,634	-	-	77,634
Borrowings	6,407	-	-	6,407
<b>Total</b>	<b>92,997</b>	<b>-</b>	<b>-</b>	<b>92,997</b>

- i. fair value determined on the basis of quoted prices offered in active markets for identical assets;
- ii. fair value determined using calculation models based on inputs that are observable, either directly or indirectly, in active markets;
- iii. fair value determined using calculation models based on inputs that are not observable, neither directly or indirectly, in active markets.

As at 31 December 2018	Carrying value PLN'000	Level 1 <sup>i)</sup> PLN'000	Level 2 <sup>ii)</sup> PLN'000	Level 3 <sup>iii)</sup> PLN'000
<b>Interest-bearing bank loans and debt securities issued</b>				
Bank loans	48,059	-	-	48,059
- overdraft facilities	40	-	-	40
- non-revolving loans	48,019	-	-	48,019
<b>Total</b>	<b>48,059</b>	<b>-</b>	<b>-</b>	<b>48,059</b>

Descriptions of the fair value hierarchy levels are identical to those provided under the previous table.

## 6.15. Other financial liabilities

### Selected accounting policies

**Liabilities under put options** represent liabilities arising from agreements concluded with shareholders or non-controlling shareholders of subsidiary companies. Under such agreements, the Group has an obligation to purchase equity instruments which is recognized at the estimated amount of future payment, even if such purchase obligation is conditional on the counterparty's exercise of its contractual right to cause such redemption (e.g. in situation where non-controlling shareholders are entitled to put shares of a subsidiary to be purchased by the parent company). If the purchase agreement does not provide for the transfer to the parent company of any benefits incidental to ownership of an equity instrument subject to a put option, then at each reporting date non-controlling interests (to which a portion of net profit attributable to non-controlling interests is still allocated) are reclassified by the Group as a financial liability, as if such puttable equity instrument was redeemed on that date. Changes in the amount of such reclassified items are recognized directly in the Group's equity, under 'Transactions with non-controlling interests'. If, under the purchase agreement, benefits incidental to ownership of such puttable equity instruments shall be transferred to the Parent Company (present ownership), then at the date of obtaining control as well as at each subsequent reporting date, non-controlling interests resulting from such puttable equity instruments are not recognized. Hence, a business combination is accounted for as if, at the date of obtaining control, the Parent Company acquired not only an equity interest in a subsidiary but also any existing puttable equity instruments. Liabilities under put options are measured at fair value at each reporting date, whereas any changes in such estimates are recognized in the income statement (as financial income/expenses). The share of profits attributable to puttable equity interests is allocated to the Parent Company, whereas any dividends paid out to non-controlling shareholders are recognized as financial expenses.

#### Deferred payments for the acquisition of shares

Liabilities under deferred payments for the acquisition of shares are recognized at the present value of the agreed consideration and they increase the purchase price of the controlling interest.

#### Conditional payments for the acquisition of shares

Liabilities under conditional payments for the acquisition of shares are recognized at the present value of the expected payment and they increase the purchase price of the controlling interest. In contrast to deferred payments, the amount of conditional payments may change at each reporting date due to changes in the probability of meeting the conditions set out in the agreement concluded with the seller of shares. Any changes in the amount of liabilities under conditional payments for the controlling interest are recognized as financial income or expenses, respectively.

#### Financial derivative instruments

Derivative instruments utilized by the Group in order to hedge against the risk of changes in foreign currency exchange rates include primarily currency forward contracts. Such financial derivatives are measured at fair value. Derivative instruments are recognized as assets if their value is positive or as liabilities if their value is negative.

Gains and losses resulting from changes in the fair value of derivatives are recognized directly in net financial profit or loss of the year in which they occurred.

The fair value of currency forward contracts is determined on the basis of the forward exchange rates available currently for contracts with similar maturity.

### Estimates

As at 31 December 2019, the Group recognized liabilities under future conditional payments to the sellers of controlling interests in our subsidiaries, as well as liabilities under put options granted to non-controlling shareholders. Determination of the amounts payable under such liabilities required making estimates of future financial results of our subsidiaries.

Financial liabilities	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	PLN'000	PLN'000	PLN'000	PLN'000
Liabilities under deferred and/or conditional payments for controlling interests	11,692	13,876	-	-
Liabilities from the acquisition of non-controlling interests in subsidiaries (put options)	16,819	-	-	-
Currency forward contracts	46	-	-	-
Other financial liabilities	-	3	-	9
	<b>28,557</b>	<b>13,879</b>	<b>-</b>	<b>9</b>

As at 31 December 2019, ASEE Group recognized liabilities under put options amounting to PLN 16,131 thousand that were granted to non-controlling shareholders of Necomplus company, as well as liabilities under put options amounting to PLN 688 thousand that were granted to non-controlling shareholders of Monri company. These liabilities have been estimated using the price calculation formula as defined in the agreement, i.e. the company's profit for the contractual term multiplied by a predetermined coefficient, and in the case Necomplus additionally adjusted for net cash held by Necomplus Group.

Long-term and short-term liabilities arising from deferred payments for controlling interests are related to the acquisition of shares in Necomplus S.L. (PLN 9,868 thousand), Sonet companies (PLN 2,129 thousand), and in Monri Croatia (PLN 426 thousand).

Long-term and short-term liabilities arising from conditional payments for controlling interests are related to the acquisition of shares in Mobven company (PLN 12,293 thousand), and in Sonet companies (PLN 852 thousand). The above-mentioned liabilities have been estimated using the price calculation formula as defined in the acquisition agreement, which corresponds to the company's profit for the contractual term multiplied by a predetermined coefficient.

Both as at 31 December 2019 and 31 December 2018, the fair values of financial liabilities were not significantly different from their book values.

As at 31 December 2019	Carrying value PLN'000	Level 1 <sup>i)</sup> PLN'000	Level 2 <sup>ii)</sup> PLN'000	Level 3 <sup>iii)</sup> PLN'000
<b>Financial liabilities</b>				
liabilities from the acquisition of shares – deferred and conditional payments for controlling interests	25,568	-	-	25,568
liabilities from the acquisition of non-controlling interests in subsidiaries (put options)	16,819	-	-	16,819
Currency forward contracts	46	-	46	-
Other financial liabilities	3	-	-	3
<b>Total</b>	<b>42,436</b>	<b>-</b>	<b>46</b>	<b>42,390</b>

i. fair value determined on the basis of quoted prices offered in active markets for identical assets;

ii. fair value determined using calculation models based on inputs that are observable, either directly or indirectly, in active markets;

iii. fair value determined using calculation models based on inputs that are not observable, neither directly or indirectly, in active markets.

As at 31 December 2018	Carrying value PLN'000	Level 1 <sup>i)</sup> PLN'000	Level 2 <sup>ii)</sup> PLN'000	Level 3 <sup>iii)</sup> PLN'000
<b>Financial liabilities</b>				
other financial liabilities	9	-	-	9
<b>Total</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>9</b>

Descriptions of the fair value hierarchy levels are identical to those provided under the previous table.

## 6.16. Trade payables, state budget liabilities, and other liabilities

### Selected accounting policies

**Trade payables** represent liabilities for goods and services received which have been invoiced, as well as payables for uninvoiced deliveries. Trade payables related to operating activities are recognized and disclosed at the amounts due for payment. Such liabilities result from goods and services received by the Group companies, which have already been invoiced or have not been invoiced yet, but are considered as highly probable by the management and their amount can be precisely determined.

**Liabilities to the state and local budgets** represent liabilities resulting from taxes and public levies, as well as from social security contributions and customs duties. Such liabilities are recognized at the amounts due for payment, determined in accordance with regulations applicable in the countries in which the Group companies operate.

**Other liabilities** include liabilities to employees arising from unpaid salaries as at the reporting date, liabilities from purchases of tangible and intangible assets, as well as other liabilities.

The table below presents the structure of the Group's liabilities outstanding as at 31 December 2019 and 31 December 2018:

	31 Dec. 2019		31 Dec. 2018	
	Long-term PLN'000	Short-term PLN'000	Long-term PLN'000	Short-term PLN'000
<b>Trade payables, of which:</b>	-	<b>109,977</b>	-	<b>78,362</b>
<b>Trade payables</b>	-	<b>100,839</b>	-	<b>72,009</b>
from related parties	-	142	-	95
from other entities	-	100,697	-	71,914
<b>Uninvoiced payables</b>	-	<b>9,138</b>	-	<b>6,353</b>
from related parties	-	13	-	-
from other entities	-	9,125	-	6,353
<b>Corporate income tax payable</b>	-	<b>5,738</b>	-	<b>3,684</b>
<b>Liabilities to the state and local budgets</b>	-	<b>24,231</b>	-	<b>19,333</b>
Value added tax (VAT)	-	15,850	-	13,775

Personal income tax (PIT)	-	2,623	-	2,033
Social insurance	-	5,053	-	3,170
Withholding income tax	-	155	-	32
Other	-	550	-	323
<b>Other liabilities</b>	<b>494</b>	<b>19,247</b>	<b>-</b>	<b>16,098</b>
Liabilities to employees (including salaries payable)	-	14,846	-	13,428
Liabilities from purchases of tangible assets and intangible assets	445	756	-	1,190
Other liabilities	49	3,645	-	1,480
<b>Total</b>	<b>494</b>	<b>159,193</b>	<b>-</b>	<b>117,477</b>

Trade payables are non-interest bearing. Related party transactions are presented in explanatory note 6.20 to these consolidated financial statements.

### 6.17. Contract liabilities

#### *Selected accounting policies*

*Liabilities from contracts with customers represent obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.*

*From the time of implementing IFRS 15 by the Group, this is since 1 January 2019, contract liabilities have included liabilities arising from the valuation of IT contracts, deferred income from right-to-access licenses that have not been recognized as at the reporting date, future revenues from the provision of services such as IT support (maintenance) which are recognized over time, as well as advance payments for deliveries of hardware.*

*Due to the large variety of performance obligations, it is difficult to determine the point in time at which the Group's performance obligations are satisfied. Most often, in the case of contracts for the implementation of a comprehensive IT system and maintenance contracts, the Group fulfils its performance obligations while providing services to customers. In the case of an obligation to provide the customer with a software license (with a right to use), the Group considers its performance obligation to have been fulfilled at the time of granting the license, but not earlier than at the beginning of the period when the customer can start using that software (usually when the license key is provided), which in the Group's opinion is tantamount to transferring the control of the license to the customer.*

#### *Estimates*

*Each time, the Group exercises professional judgment involving the assessment of the percentage of completion of IT implementation contracts in relation to invoices issued, as well as the allocation of the transaction price.*

As at 31 December 2019, the Group's contract liabilities resulted from obligations listed in the table below.

	31 Dec. 2019		31 Dec. 2018	
	Long-term PLN'000	Short-term PLN'000	Long-term PLN'000	Short-term PLN'000
<b>Liabilities from valuation of IT contracts, of which:</b>	<b>-</b>	<b>13,259</b>	<b>-</b>	<b>5,900</b>
From related parties	-	-	-	-
From other entities	-	13,259	-	5,900
<b>Deferred income from IT projects, of which:</b>	<b>804</b>	<b>45,448</b>	<b>236</b>	<b>31,266</b>
Maintenance services	804	25,288	236	20,843
License fees	-	1,570	-	670
Prepaid implementation services	-	1,865	-	1,779
Obligations to supply hardware	-	16,725	-	7,974
<b>Total contract liabilities</b>	<b>804</b>	<b>58,707</b>	<b>236</b>	<b>37,166</b>



The table below explains changes in the balance of contract liabilities during the periods of 12 months ended 31 December 2019 and 31 December 2018:

	12 months ended 31 Dec. 2019 PLN'000	12 months ended 31 Dec. 2018 PLN'000
<b>Liabilities from valuation of long-term IT contracts and deferred income from IT projects as at 1 January</b>	<b>37,402</b>	<b>38,074</b>
Invoices issued above the level of performance obligations satisfied	88,197	58,663
Fulfilment of new uninvoiced performance obligations; changes in estimated transaction prices, modification of other assumptions	(69,794)	(58,528)
Obtaining control over subsidiaries	4,931	-
Foreign exchange differences on translation of foreign operations	(1,225)	(807)
<b>Contract liabilities as at 31 December</b>	<b>59,511</b>	<b>37,402</b>

## 6.18. Provisions

### Selected accounting policies

A provision should be recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the effect of the time value of money is material, the amount of a provision shall be determined by discounting the expected future cash flows to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks related to the liability. Where the discounting method is used, an increase in a provision due to the passage of time is recognized as a financial cost.

#### Onerous contracts and provisions for losses

The Group recognizes provisions for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

A contract with a customer is onerous when the total amount of revenues is lower than the total of the cost of goods and services sold and production costs.

Once an onerous contract is identified (which may happen at any time during the contract execution), the entire loss expected to be incurred on such contract should be immediately recognized as a cost in the current reporting period (by creating a provision for the expected loss).

The amount of provision for onerous contracts is verified at each reporting date (the amount of provision should be equal to the difference between the entire expected loss and the loss already incurred till the reporting date), which may result in an increase or decrease in the provision.

#### Provision for warranty repairs

The provision for warranty repairs is created to cover any anticipated future costs of warranty or service obligations resulting from the executed IT contracts, if the warranty obligations meet the definition of a standard warranty under IFRS 15.

If the warranty meets the definition of a service (is an extended warranty in accordance with IFRS 15), i.e. the warranty scope is broader than just an assurance to the customer that the product/service complies with agreed-upon specifications, then no provision is created. This is because the fulfilment of a non-standard guarantee is an obligation to perform a service, and as such should be recognized in revenues but not in the category of provisions.

The provision for (standard) warranty repairs is set aside in the cases where:

- (i) no contract for maintenance services has been signed with the customer, or
- (ii) the scope of the maintenance services contract does not fully cover all anticipated costs of the fulfilment of warranty obligations; or
- (iii) the scope of the manufacturer's warranty for any equipment resold is narrower than the scope of warranty the Group is contractually committed to provide to its customer.

The provision amount recognized at the reporting date shall be proportional to the progress of IT contract execution.

Any costs associated with the provision of our warranty services shall be, when incurred, deducted from the previously created provision. At the reporting date, the Group verifies the amount of carried provision for warranty repairs. If the actual costs of warranty services or anticipated future costs are lower/higher than assumed at the time of initial recognition of a provision, such provision shall be decreased/increased accordingly to reflect the Group's current expectations in respect of the fulfilment of its warranty obligations in future periods.

#### Post-employment benefits

In accordance with our corporate remuneration schemes, the Group's employees are entitled to receive a retirement benefit. The amount of retirement benefits depends on the regulations of the labour law in force in individual countries where the Group companies operate. The present value of such liabilities is measured by an independent actuary at each reporting date. Any actuarial gains or losses resulting from the remeasurement of obligations under defined benefit plans shall be recognized in other comprehensive income and cannot be later reclassified to profit or loss.

#### Provision for contractual penalties

Provisions for contractual penalties are created in connection with pending court proceedings based on available information, including opinions of independent experts.

Changes in the amount of provisions during the period of 12 months ended 31 December 2019 and in the comparable period are presented in the table below:

Provisions	Warranty repairs and product returns PLN'000	Provisions for contractual penalties PLN'000	Provisions for losses on contracts PLN'000	Costs related to ongoing court litigation PLN'000	Post-employment benefits PLN'000	Other provisions PLN'000	Total PLN'000
<b>As at 1 January 2019</b>	<b>682</b>	<b>977</b>	<b>609</b>	<b>371</b>	<b>2,012</b>	<b>44</b>	<b>4,695</b>
Obtaining control over subsidiaries	2	-	-	79	152	-	233
Provisions created during the reporting period	1,368	-	543	213	490	25	2,639
Provisions utilized/reversed	(944)	-	(870)	(320)	(396)	-	(2,530)
Foreign exchange differences on translation of foreign operations	(8)	(3)	(13)	(19)	(134)	-	(177)
<b>As at 31 December 2019, of which:</b>	<b>1,100</b>	<b>974</b>	<b>269</b>	<b>324</b>	<b>2,124</b>	<b>69</b>	<b>4,860</b>
Short-term	1,100	974	269	167	330	7	2,847
Long-term	-	-	-	157	1,794	62	2,013
<b>As at 1 January 2019, of which:</b>	<b>682</b>	<b>977</b>	<b>609</b>	<b>371</b>	<b>2,012</b>	<b>44</b>	<b>4,695</b>
Short-term	556	977	609	169	397	5	2,713
Long-term	126	-	-	202	1,615	39	1,982

In the comparable period, the amounts of provisions changed as follows:

Provisions	Warranty repairs and product returns PLN'000	Provisions for contractual penalties PLN'000	Provisions for losses on contracts PLN'000	Costs related to ongoing court litigation PLN'000	Post-employment benefits PLN'000	Other provisions PLN'000	Total PLN'000
<b>As at 1 January 2018 – published</b>	<b>497</b>	<b>953</b>	<b>692</b>	<b>580</b>	<b>1,660</b>	<b>70</b>	<b>4,452</b>
Impact of IFRS 15 on the opening balance	-	-	-	-	-	-	-
<b>As at 1 January, including the impact of IFRS 15</b>	<b>497</b>	<b>953</b>	<b>692</b>	<b>580</b>	<b>1,660</b>	<b>70</b>	<b>4,452</b>
Provisions created during the reporting period	1,078	-	1,479	15	939	5	3,516
Provisions utilized/reversed	(907)	-	(1,581)	(161)	(307)	(32)	(2,988)
Foreign exchange differences on translation of foreign operations	14	24	19	(63)	(280)	1	(285)
<b>As at 31 December 2018, of which:</b>	<b>682</b>	<b>977</b>	<b>609</b>	<b>371</b>	<b>2,012</b>	<b>44</b>	<b>4,695</b>
Short-term	556	977	609	169	397	5	2,713
Long-term	126	-	-	202	1,615	39	1,982
<b>As at 1 January 2018, of which:</b>	<b>497</b>	<b>953</b>	<b>692</b>	<b>580</b>	<b>1,660</b>	<b>70</b>	<b>4,452</b>
Short-term	497	953	692	264	153	70	2,629
Long-term	-	-	-	316	1,507	-	1,823

The provision for the costs of warranty repairs was created in connection with our obligations to provide contractually guaranteed repair services on software and hardware products supplied to our clients. The amount of reversed provisions represents our project-related provisions that were created in previous periods (based on historical data) and, subsequently, were not utilized for such projects.

The provision for contractual penalties was created with regard to a contract executed in Serbia, under which software licenses were delivered while further contract stages (including implementation of the solution) were not performed. Discussions are being held in order to complete the contract by mutual agreement. The company has created provisions for potential customer claims related to the contract completion.

The provision for post-employment benefits represents retirement benefits which are to be paid to the Group's employees when they go into retirement or leave the company, provided such entitlement was acquired in accordance with the country's applicable regulations.

## 6.19. Accruals

### Selected accounting policies

#### Accrual for unused holiday leaves

The Group creates a "provision" (recognized as a component of accruals) for unused holiday leaves, which relate to periods preceding the reporting date and will be used in the future, for all of the Group's employees in countries where unused holiday leaves constitute accumulating paid absences (absences that are carried forward and can be used in future periods if the current period's entitlement is not used in full). The amount of such provision depends on the average monthly salary and the number of leave days eligible but not used by an employee as at the end of the reporting period. The Group recognizes the costs of unused holiday leaves on an accrual basis, based on estimated amounts, and discloses them in the income statement under salaries (where they occur).

#### Accrual for employee bonuses

An obligation under bonus plans results from employee service and not from a transaction with the Group's owners. Therefore, the cost of such plans (even if they provide for profit-sharing payments) is always recognized as an expense and not as a distribution of profit.

The Group shall recognize the expected cost of profit-sharing and bonus payments when, and only when:

- it has a present legal or constructive obligation to make such payments as a result of past events; and
- a reliable estimate of the obligation can be made.

A present obligation exists when, and only when, the Group has no realistic alternative but to make the payments.

### Estimates

The Group estimates the amount of its obligations based on the adopted assumptions and methodology, assessing the probability of an outflow of resources embodying economic benefits and, as at the reporting date, recognizes liabilities for which such outflow is highly probable. The accrual for employee bonuses, in a large number of cases, depends of the estimates of profits achieved at various levels by the Group or its subsidiary companies.

	31 Dec. 2019		31 Dec. 2018	
	Long-term PLN'000	Short-term PLN'000	Long-term PLN'000	Short-term PLN'000
<b>Accruals, of which:</b>				
Accrual for unused holiday leaves	-	3,938	-	2,798
Accrual for employee and management bonuses	-	18,379	-	10,563
	-	<b>22,317</b>	-	<b>13,361</b>

The total amount of accruals comprises: accruals for unused holiday leaves, as well as accruals for remunerations of the current period to be paid out in future periods which result from the bonus incentive schemes applied by the Group.

## 6.20. Related party transactions

	Sales to related parties PLN'000	Purchases from related parties PLN'000	Trade receivables and other receivables PLN'000	Trade payables and other liabilities PLN'000	Lease liabilities PLN'000
<b>Transactions with Asseco Poland</b>					
2019	129	925	60	33	-
2018	64	223	58	19	-
<b>Transactions with entities of Asseco Poland Group</b>					
2019	386	226	116	139	-
2018	7,281	191	131	-	-
<b>Transactions with associates</b>					
2019	261	-	-	-	-
2018	212	-	360	-	-
<b>Transactions with entities or individuals related through the Group's Key Management Personnel</b>					
2019	1,860	1,929	1,245	73	14,062

2018	323	6,722	130	75	-
<b>Transactions with Members of Management Board and Supervisory Board of ASEE S.A. and companies of ASEE Group</b>					
2019	-	-	256	-	153
2018	57	51	-	-	-

Apart from trade receivables, the above table also discloses receivables from deposits paid-in by us under space rental contracts, amounting to PLN 47 thousand as at 31 December 2019 and PLN 47 thousand as at 31 December 2018.

Purchases from and sales to related parties presented in the table above resulted from purchases and sales of hardware and services that were conducted by companies of ASEE Group with related companies of Asseco Poland Group as well as with parties related through the Key Management Personnel or directly with the Key Management Personnel. In the period of 12 months ended 31 December 2019, the amounts of purchases from parties related through the Key Management Personnel or directly from the Key Management Personnel were lower than in the comparable period last year, because the rentals of business space from MHM d.o.o., Beograd<sup>1</sup>, Miljan Mališ and Mini Invest d.o.o., Beograd<sup>2</sup> meet the definition of a lease under IFRS 16. Therefore, the Group did not recognize any space rental costs, and instead in the statement of financial position it disclosed a right-of-use asset, which is subject to depreciation, as well as financial liabilities in respect of such leases. Lease liabilities arising from rental contracts concluded with parties related through the Key Management Personnel and directly with the Key Management Personnel amounted to PLN 14,215 thousand.

The amounts of sales and receivables from related parties increased as a result of transactions carried out by the newly acquired Basilichi company with Basilichi CEE d.o.o. Podgorica and Basilichi CEE d.o.o. Banja Luka. These companies are related through a common Member of the Management Board.

Moreover, bank loans and borrowings disclosed as at 31 December 2019 include a borrowing of PLN 6,407 thousand that was obtained by Necomplus S.L. from Asseco Western Europe S.A.

ASEE S.A. also has a liability towards Asseco Western Europe S.A. arising from deferred payments for the acquisition of a controlling interest in Necomplus S.L. in the amount of PLN 9,868 thousand.

In addition, Asseco International a.s., our parent company, received dividends from ASEE S.A. in the gross amount of PLN 13,777 thousand.

Transactions with related parties are carried out on an arm's length basis.

On 23 June 2017, Asseco Poland S.A. and managers of ASEE Group companies signed agreements for the acquisition of shares in ASEE S.A., which has been described in detail in explanatory note 5.2 in this report. Members of the Management Board of ASEE S.A., acting directly or through their related parties, have acquired the following numbers of shares:

Management Board Members	Number of shares acquired
Piotr Jeleński	966,942
Miljan Mališ	300,000
Miodrag Mirčetić	275,482
Marcin Rułnicki	30,000
Kostadin Slavkoski	30,000
<b>Total</b>	

<sup>1</sup> President of the Management Board of ASEE S.A. holds indirectly a 15% stake in MHM d.o.o. through his wholly-owned Kompania Petyhorska d.o.o. Moreover, 20% of shares in MHM d.o.o. are held by I4 Invention d.o.o. which is also a shareholder in ASEE S.A. Whereas, 100% of shares in I4 Invention d.o.o. are held by Miodrag Mirčetić, who served as Member of the Management Board of ASEE S.A. till 30 September 2019.

<sup>2</sup> Miljan Mališ, Member of the Management Board of ASEE S.A., is a shareholder in the company Mini Invest d.o.o. which in turn is a shareholder in ASEE S.A. As at 31 December 2019, Mini Invest d.o.o. held 322,715 shares in ASEE S.A.

In the consolidated financial statements for the year ended 31 December 2019, the costs of share-based payment plan related to shares acquired by Members of the Management Board amounted to PLN 1,447 thousand (vs. PLN 1,765 thousand in the comparable period).

Members of the Management Board and parties related through Members of the Management Board and Supervisory Board of Asseco South Eastern Europe S.A. received dividends from ASEE S.A. in the total gross amount of PLN 824 thousand, as compared with PLN 818 thousand distributed in 2018. The above-stated amounts do not include dividends payable to Asseco International a.s. The dividend was paid out on 11 July 2019.

Until the date of approval of these consolidated financial statements, ASEE S.A. has not received any information on any related party transactions conducted during the reporting period which would be carried out other than on an arm's length basis.

## VII. Explanatory notes to the consolidated statement of cash flows

### 7.1. Cash flows – investing activities

In the period of 12 months ended 31 December 2019, the amount of cash flows from investing activities was affected primarily by:

- acquisitions of property, plant and equipment (PLN 50,529 thousand), intangible assets (PLN 4,912 thousand) and expenditures for development projects (PLN 175 thousand),
- expenditures for the acquisition of subsidiaries decreased by cash and cash equivalents in subsidiaries acquired, as disclosed in the table below:

	Acquisition of subsidiaries PLN'000	Cash in subsidiaries acquired PLN'000
Necomplus Group	(23,354)	14,812
Multicard	(1,162)	82
B Services	(1,788)	618
Basilichi	(179)	66
Mobven	(15,141)	1,009
Sonet Group	(21,288)	8,879
Monri Group	(8,438)	496
<b>Total</b>	<b>(71,350)</b>	<b>25,962</b>

### 7.2. Cash flows – financing activities

The table below explains changes in financial liabilities attributable to financing activities, including both changes arising from cash flow and non-cash changes:

Change in financial liabilities	Interest-bearing bank loans and borrowings PLN'000	Lease liabilities PLN'000	Dividend payment liabilities PLN'000	Total PLN'000
<b>As at 1 January 2019</b>	<b>48,019</b>	<b>1,875</b>	<b>-</b>	<b>49,894</b>
Restatement of comparable data resulting from the adoption of IFRS 16	-	34,694	-	34,694
<b>As at 1 January 2019, after restatement</b>	<b>48,019</b>	<b>36,569</b>	<b>-</b>	<b>84,588</b>
<b>Changes arising from cash flow</b>	<b>20,619</b>	<b>(19,211)</b>	<b>(27,437)</b>	<b>(26,029)</b>
Inflows	54,477	-	-	54,477
Repayment of principal amount	(32,606)	(17,230)	(27,437)	(77,273)
Interest paid	(1,252)	(1,981)	-	(3,233)
<b>Non-cash changes</b>	<b>16,418</b>	<b>50,220</b>	<b>27,437</b>	<b>94,075</b>
Interest accrued	1,239	1,981	-	3,220
Non-cash increase in liabilities	-	32,062	27,437	59,499
Non-cash decrease in liabilities	-	(3,285)	-	(3,285)
Obtaining control over subsidiaries	15,562	19,227	-	34,789
Foreign exchange differences recognized in financial income/expenses	(383)	235	-	(148)
<b>Foreign exchange differences on translation of foreign operations</b>	<b>(1,015)</b>	<b>(1,166)</b>	<b>-</b>	<b>(2,181)</b>
<b>As at 31 December 2019</b>	<b>84,041</b>	<b>66,412</b>	<b>-</b>	<b>150,453</b>

## VIII. Explanatory notes on objectives and principles of financial risk management

ASEE Group is exposed to a number of risks arising either from the macroeconomic situation of the countries where the Group companies operate as well as from microeconomic situation in individual companies. The main market factors that may have an adverse impact on the Group's financial performance are: (i) fluctuations in foreign currency exchange rates versus the functional currencies of the Group companies, and (ii) changes in market interest rates. Business operations conducted by the Group are also exposed to credit risk and financial liquidity risk.

### 8.1. Foreign currency risk

#### *Selected accounting policies*

*The currency of measurement applied by the Parent Company as well as the reporting currency used in these consolidated financial statements is the Polish zloty (PLN). The functional currencies of the Group's foreign subsidiaries include: EUR (euro), RON (Romanian new leu), HRK (Croatian kuna), RSD (Serbian dinar), MKD (Macedonian denar), TRY (Turkish lira), BGN (Bulgarian lev), BAM (Bosnia and Herzegovina convertible mark), and CZK (Czech koruna).*

*Transactions denominated in foreign currencies (i.e. other than the functional currency) are, at the time of initial recognition, translated into the functional currency at the exchange rate effective on the transaction date. Assets and liabilities expressed in foreign currencies are converted into the functional currency at the exchange rate effective at the end of the reporting period. Foreign currency non-cash items carried at historical cost are converted at the exchange rate effective on the original transaction date. Foreign currency non-cash items carried at fair value are converted using the exchange rate as of the date when such fair value is determined.*

*As at the reporting date, assets and liabilities denominated in currencies other than the Polish zloty (if it is the entity's functional currency) are translated into Polish zlotys at the mid exchange rates of such currencies as published by the National Bank of Poland and in effect on the last day of the reporting period. Foreign exchange differences resulting from such translation are accounted for respectively as financial income (expenses) or they may be capitalized as assets if so provided in the adopted accounting policies.*

*Individual items disclosed in the financial statements of our foreign operations are translated into the Group's functional currency in the following way:*

- *assets and liabilities are translated at the mid exchange rate effective at the end of the reporting period as published by the National Bank of Poland;*
- *revenues and costs are translated at the arithmetic average of mid exchange rates effective on the last day of each month as published by the National Bank of Poland;*
- *any foreign exchange differences resulting from such translation are recognized in other comprehensive income.*

The Group's presentation currency is the Polish zloty; however, many of the Group's subsidiaries use different functional currencies in which their operating activities are conducted. The Group identifies the foreign currency risk associated with transactions concluded by the Group companies in currencies other than their functional currencies. As a result, the Group is exposed to potential losses arising from changes in the exchange rate of a transaction currency against the functional currency of a given subsidiary over the period from concluding a transaction denominated in a foreign currency till the date of issuing an invoice, receiving the payment, and the settlement of a financial instrument transaction.

As part of monitoring the Group's foreign currency risk, all transactions denominated in currencies other than the functional currency of a given subsidiary are subject to special registration. Moreover, our procedures applicable to the execution of IT projects require making systematic updates of the project implementation schedules as well as generated cash flows with regard to changes resulting from fluctuations in foreign exchange rates.

The tables below present the currency structure and the Group's exposure to fluctuations in the exchange rates of the Polish zloty against currencies in which most of our foreign transactions are concluded. These tables present the currency structure of various classes of financial instruments held as at 31 December 2019 and 31 December 2018.

Groups/categories of financial instruments	Carrying value as at 31 Dec. 2019	Foreign currency exposure as at 31.12.2019	EUR	USD	Other currencies
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
<b>Financial assets</b>					
Cash and cash equivalents	199,663	191,804	82,888	8,972	99,944
Loans granted and bank deposits	5,031	5,031	8	-	5,023
Other financial assets	211	211	113	-	98
Trade receivables and contract assets	192,580	192,036	42,570	5,974	143,492

<b>Financial liabilities</b>					
Financial liabilities carried at fair value through profit or loss	25,617	15,749	852	12,340	2,557
Bank loans and borrowings	92,997	92,997	83,960	-	9,037
Trade payables and liabilities arising from valuation of IT contracts	123,236	122,029	47,037	9,790	65,202

Groups / categories of financial instruments	Carrying value as at 31 Dec. 2018	Foreign currency exposure as at 31.12.2018	EUR		USD	Other currencies
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
<b>Financial assets</b>						
Cash and cash equivalents	164,887	131,474	46,993	10,921	73,560	
Loans granted and bank deposits	4,105	4,105	100	-	4,005	
Other financial assets	244	244	152	-	92	
Trade receivables and contract assets	151,194	149,752	17,218	2,287	130,247	
<b>Financial liabilities</b>						
Financial liabilities carried at fair value through profit or loss	9	9	9	-	-	
Bank loans and borrowings	48,059	48,059	41,391	-	6,668	
Trade payables and liabilities arising from valuation of IT contracts	84,262	83,295	60,214	1,949	21,132	

The tables below present the analysis of sensitivity of our financial results to fluctuations in foreign exchange rates as at 31 December 2019 and in the comparable period:

Groups / categories of financial instruments	Analysis of sensitivity to foreign currency risk as at 31 Dec. 2019			
	EUR		USD	
	+10%	-10%	+10%	-10%
	Impact on financial results PLN'000	Impact on financial results PLN'000	Impact on financial results PLN'000	Impact on financial results PLN'000
<b>Financial assets</b>				
Cash and cash equivalents	8,289	(8,289)	897	(897)
Loans granted and bank deposits	1	(1)	-	-
Other financial assets	11	(11)	-	-
Trade receivables and contract assets	4,257	(4,257)	597	(597)
<b>Financial liabilities</b>				
Financial liabilities carried at fair value through profit or loss	(85)	85	(1,234)	1,234
Bank loans and borrowings	(8,396)	8,396	-	-
Trade payables and liabilities arising from valuation of IT contracts	(4,704)	4,704	(979)	979

Groups / categories of financial instruments	Analysis of sensitivity to foreign currency risk as at 31 Dec. 2018			
	EUR		USD	
	+10%	-10%	+10%	-10%
	Impact on financial results PLN'000	Impact on financial results PLN'000	Impact on financial results PLN'000	Impact on financial results PLN'000
<b>Financial assets</b>				
Cash and cash equivalents	4,699	(4,699)	1,092	(1,092)
Loans granted and bank deposits	10	(10)	-	-
Other financial assets	15	(15)	-	-
Trade receivables and contract assets	1,722	(1,722)	229	(229)
<b>Financial liabilities</b>				
Financial liabilities carried at fair value through profit or loss	(1)	1	-	-
Bank loans and borrowings	(4,139)	4,139	-	-
Trade payables and liabilities arising from valuation of IT contracts	(6,021)	6,021	(195)	195



## 8.2. Interest rate risk

The Group identifies and measures the interest rate risk on a regular basis, and takes actions aiming to minimize its impact on our financial position. Any instruments bearing a variable interest rate expose the Group to the risk of cash flow fluctuations as a result of interest rate changes, which may affect the amount of interest income or expenses recognized in financial results. Changes in the market interest rates may have a negative influence on the financial results of the Group. The Group's exposure to changes in this market factor is attributable to changes in the amount of interest charged on variable-interest loans that are granted to the Group companies by external financial institutions.

The interest rate risk is identified by the Group at the time of concluding a transaction or a financial instrument exposed to such risk. All transactions vulnerable to the risk of market interest rate changes are subject to special registration and control by a competent department at each company of our Group.

Exposure to interest rate risk is measured as the total amount arising from all financial instruments exposed to the risk of changing interest rates.

In order to reduce their interest rate risk, the Group companies: (i) try to avoid obtaining bank loans that are based on a variable interest rate or, if not possible, (ii) may conclude forward rate agreements if the costs of such precaution are justified in relation to the expected benefits.

Detailed information on bank loans and borrowings, including their interest rates, currencies, and maturities are presented in explanatory note 6.14 to these consolidated financial statements.

The analysis of the Group's financial instruments exposed to interest rate risk showed that basically only bank loans and borrowings are exposed to changes in interest rates, because they bear interest based on EURIBOR. The amounts exposed to risk as well as the analysis of sensitivity are presented in the table below:

	Carrying value	Amount exposed to risk of changes in EURIBOR	Deviation assumed (in percentage points)		Impact on financial results	
	PLN'000	PLN'000			PLN'000	PLN'000
<b>Bank loans and borrowings as at 31 December 2019, of which:</b>						
Revolving bank loans	8,956	-	+ 1.0 pp	- 1.0 pp	-	-
Bank loans	77,634	55,354	+ 1.0 pp	- 1.0 pp	(554)	554
Borrowings from related parties and from other entities	6,407	6,407	+ 1.0 pp	- 1.0 pp	(64)	64
<b>Bank loans and borrowings as at 31 December 2018, of which:</b>						
Revolving bank loans	40	-	+ 1.0 pp	- 1.0 pp	-	-
Bank loans	48,019	44,239	+ 1.0 pp	- 1.0 pp	(442)	442
Borrowings from related parties and from other entities	-	-	+ 1.0 pp	- 1.0 pp	-	-

The analysis of sensitivity has been carried out for financial instruments held by ASEE Group as at 31 December 2019 and 31 December 2018. The impact of changes in interest rates has been presented on an annual basis. The sensitivity of financial instruments to interest rate risk has been determined by multiplying the total amount of instruments exposed to risk by adequate deviation in interest rates as assumed in the calculation.

## 8.3. Credit risk

The Group identifies the credit risk arising in situations where the counterparty to a transaction fails to perform its obligations towards the Group's company, thus exposing the Group to a potential financial loss. The Group's credit risk management policy is presented in explanatory note 6.8 on long- and short-term receivables.

The total exposure of the Group to credit risk results from the fact of having receivables (note 6.8) and other financial assets (note 6.6).

#### 8.4. Financial liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool takes into account the maturity of financial investments and financial assets, as well as projected cash flows from operations.

The Group's objective is to maintain a balance between continuity and flexibility of financing by using various sources of funds.

The tables below disclose the ageing structure of the Group's financial liabilities as at 31 December 2019 and 31 December 2018, by maturity:

Maturity of financial liabilities as at 31 December 2019	Liabilities falling due within 3 months	Liabilities falling due within 3 to 12 months	Liabilities falling due within 1 to 5 years	Liabilities falling due after 5 years	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Trade payables and liabilities arising from valuation of IT contracts	115,167	8,069	-	-	123,236
Bank loans and borrowings	7,442	42,300	43,255	-	92,997
Lease liabilities *	5,394	15,585	46,111	4,052	71,142
Ageing of liabilities for unpaid shares	5,362	2,129	4,932	-	12,423
Ageing of conditional payments recognized due to business acquisitions	-	6,385	6,760	-	13,145
Ageing of liabilities under put options granted to non-controlling shareholders	-	-	16,819	-	16,819
Ageing of liabilities under forward/future contracts	-	-	46	-	46
<b>Total</b>	<b>133,365</b>	<b>74,468</b>	<b>117,923</b>	<b>4,052</b>	<b>329,808</b>

\* The amount analyzed for aging includes contractual undiscounted cash flows only, as opposed to the value presented in the statement of financial position

Maturity of financial liabilities as at 31 December 2018	Liabilities falling due within 3 months	Liabilities falling due within 3 to 12 months	Liabilities falling due within 1 to 5 years	Liabilities falling due after 5 years	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Trade payables and liabilities arising from valuation of IT contracts	84,047	82	133	-	84,262
Bank loans and borrowings	6,092	14,761	27,206	-	48,059
Finance lease liabilities *	234	651	1,094	-	1,979
Other	-	9	-	-	9
<b>Total</b>	<b>90,373</b>	<b>15,503</b>	<b>28,433</b>	<b>-</b>	<b>134,309</b>

\* The amount analyzed for aging includes contractual undiscounted cash flows only, as opposed to the value presented in the statement of financial position

### 8.5. Items of income, expenses, gains and losses recognized in the income statement in correspondence to balance sheet items

As at 31 December 2019, the following items of income, expenses, gains and losses were recognized in the Group's income statement, in a breakdown to corresponding items in the statement of financial position:

Items of income, expenses, gains and losses recognized in the income statement	Category according to IFRS 9	Interest income (expenses)	Gain (loss) on foreign exchange differences	Reversal (recognition) of impairment losses	Gain (loss) on valuation and exercise	Total
For 12 months ended 31 December 2019		PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
<b>Financial assets</b>		<b>2,247</b>	<b>1,553</b>	<b>(3,122)</b>	<b>177</b>	<b>855</b>
Currency forward contracts	FVtPL	-	-	-	177	177
Loans granted	MaAC	17	-	(90)	-	(73)
Cash deposits	MaAC	41	-	-	-	41
Trade receivables	MaAC	-	322	(3,032)	-	(2,710)
Cash and cash equivalents	FVtPL	2,189	1,231	-	-	3,420
<b>Financial liabilities</b>		<b>(3,256)</b>	<b>(872)</b>	<b>-</b>	<b>(848)</b>	<b>(4,976)</b>
Forward/future contracts	FVtPL	-	(79)	-	(125)	(204)
Liabilities under deferred and/or conditional payments for controlling interests	FVtPL	-	(113)	-	(723)	(836)
Bank loans and borrowings	MaAC	(1,239)	80	-	-	(1,159)
Lease liabilities	MaAC	(1,981)	(235)	-	-	(2,216)
Trade payables	MaAC	(36)	(525)	-	-	(561)
<b>Total</b>		<b>(1,009)</b>	<b>681</b>	<b>(3,122)</b>	<b>(671)</b>	<b>(4,121)</b>

As at 31 December 2018, the following items of income, expenses, gains and losses were recognized in the Group's income statement, in a breakdown to corresponding items in the statement of financial position:

Items of income, expenses, gains and losses recognized in the income statement	Category according to IFRS 9	Interest income (expenses)	Gain (loss) on foreign exchange differences	Reversal (recognition) of impairment losses	Gain (loss) on valuation and exercise	Total
For 12 months ended 31 December 2018		PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
<b>Financial assets</b>		<b>1,670</b>	<b>6,632</b>	<b>(544)</b>	<b>(589)</b>	<b>7,169</b>
Currency forward contracts	FVtPL	-	303	-	(589)	(286)
Loans granted	MaAC	329	-	-	-	329
Trade receivables	MaAC	55	2,915	(544)	-	2,426
Cash and cash equivalents	FVtPL	1,286	3,414	-	-	4,700
<b>Financial liabilities</b>		<b>(1,169)</b>	<b>(2,933)</b>	<b>-</b>	<b>-</b>	<b>(4,102)</b>
Liabilities under deferred and/or conditional payments for controlling interests	FVtPL	-	(1,127)	-	-	(1,127)
Bank loans and borrowings	MaAC	(1,039)	(209)	-	-	(1,248)
Lease liabilities	MaAC	(99)	-	-	-	(99)
Trade payables	MaAC	(31)	(1,597)	-	-	(1,628)
<b>Total</b>		<b>501</b>	<b>3,699</b>	<b>(544)</b>	<b>(589)</b>	<b>3,067</b>

## IX. Other explanatory notes

### 9.1. Off-balance-sheet liabilities

#### Selected accounting policies

**Off-balance-sheet liabilities** are primarily contingent liabilities, by which the Group understands: a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not fully controlled by the Group, or a present obligation that arises from past events but is not recognized because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability.

**Contingent liabilities** are not recognized in the statement of financial position; however, information about a contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

**Operating leases** – the Group applies a practical expedient for rental contracts and other contracts of similar nature that are concluded for a period shorter than 12 months from the lease commencement date, as well as for leases of low-value assets. In both the above-mentioned exceptions, the lease payments are basically expensed on a straight-line basis in the period to which they are related. In such case, the Group does not recognize any right-of-use assets or corresponding financial liabilities. Such operating lease liabilities are recognized as off-balance-sheet liabilities.

Within its commercial activities ASEE Group uses bank guarantees as well as contract performance guarantees as forms of securing its business transactions with miscellaneous organizations, companies and administration bodies.

As at 31 December 2019, the related contingent liabilities equalled PLN 50,220 thousand, while as at 31 December 2018 they amounted to PLN 24,638 thousand.

Assets serving as collateral for bank guarantee facilities:

Category of assets	Net value of assets		Amount of granted guarantee secured with assets	
	31 Dec. 2019 PLN'000	31 Dec. 2018 PLN'000	31 Dec. 2019 PLN'000	31 Dec. 2018 PLN'000
Financial assets	4,502	-	11,478	-
Trade receivables	1,364	1,698	1,681	1,887
Other non-financial assets	274	-	-	-
<b>Total</b>	<b>6,140</b>	<b>1,698</b>	<b>13,159</b>	<b>1,887</b>

None of the above-described guarantee obligations meet the definition of a financial guarantee under IFRS 9, and therefore they are not recognized as liabilities in the statement of financial position of the Group as at 31 December 2019.

The Group is party to a number of contracts for rental of:

- office and warehouse space,
- locations for ATMs,
- transportation vehicles,
- office equipment,
- other assets.

As at 31 December 2019 and 31 December 2018, the above-mentioned contracts resulted in the following off-balance-sheet liabilities to make future payments:

	31 Dec. 2019 PLN'000	31 Dec. 2018 PLN'000
<b>Liabilities from rental of space</b>		
In the period up to 1 year	1,692	9,797
In the period from 1 to 5 years	139	23,259
Over 5 years	-	-
	<b>1,831</b>	<b>33,056</b>
<b>Liabilities under operating leases of equipment</b>		
In the period up to 1 year	126	1,820
In the period from 1 to 5 years	-	3,384
Over 5 years	-	-
	<b>126</b>	<b>5,204</b>

The said contracts meet the definition of a lease under IFRS 16. Off-balance-sheet liabilities disclosed as at 31 December 2019 are related to lease contracts that were subject to exemptions provided under IFRS 16 (short-term leases and leases of low-value assets).

### Disputes in litigation as at the end of the reporting period

The legal proceedings that were brought by Romsys S.R.L. against ASEE Romania for payment of damages in the amount of EUR 1,226 thousand in order to compensate for their losses so far incurred due to allegedly unfair competition, which were conducted since 2016, have been finally settled to the satisfaction of ASEE Romania. Romsys S.R.L. has not filed an appeal against the decision of the second instance court to the court of cassation; hence the decision issued on 28 February 2018 by the first instance court that dismissed the claim made by Romsys S.R.L. has become final and binding.

Except for those described above, during the reporting period, no significant proceedings were instituted or pending before any court, arbitration authority or public administration authority, concerning any liabilities or receivables of ASEE Group companies.

## 9.2. Seasonal and cyclical business

The Group's sales revenues are subject to some seasonality in individual quarters of the year. The fourth quarter revenues tend to be higher than in the remaining periods, as bulk of such turnover is generated from the sale of IT services for large enterprises and public administration. Such entities often decide to make higher purchases of hardware and licenses in the last months of a year.

## 9.3. Employment

Number of employees in the Group companies as at	31 Dec. 2019	31 Dec. 2018
Management Board of the Parent Company	4	4
Management Boards of the Group companies	43	41
Production departments	2,206	1,302
Sales departments	175	133
Administration departments	247	175
<b>Total</b>	<b>2,675</b>	<b>1,655</b>

Number of employees in the Group companies as at:	31 Dec. 2019	31 Dec. 2018
ASEE S.A.	29	30
ASEE Romania Group	138	141
ASEE Serbia Group	437	420
ASEE Croatia	176	162
ASEE Kosovo Group	71	61
Payten Turkey Group	178	186
ASEE Bulgaria	19	20
ASEE B&H	69	63
ASEE Macedonia	190	177
Payten Slovenia	32	30
Payten Montenegro Group	17	11
Payten Croatia	107	108
Payten B&H	55	34
Payten Macedonia	31	28
Payten Serbia Group	170	132
Payten Romania	49	52
ASEE Turkey	92	-
Necomplus Group	729	-
Sonet Group	86	-
<b>Total</b>	<b>2,675</b>	<b>1,655</b>

#### 9.4. Remuneration of the entity authorized to audit financial statements

The table below discloses the amounts of remuneration paid or payable to the entity authorized to audit the Company's and the Group's financial statements for the years ended 31 December 2019 and 31 December 2018, in a breakdown by type of service:

Remuneration of the entity authorized to audit financial statements	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
Audit of the annual financial statements	182	160
Review of the semi-annual financial statements	83	56
Other certification services	-	-
Transaction advisory services	-	-
<b>Total</b>	<b>265</b>	<b>216</b>

In the year ended 31 December 2019 as well as in the year 2018, to the entity authorized to audit financial statements was Deloitte Audyt Sp. z o.o. (limited partnership). It has been selected by a resolution of the Supervisory Board of ASEE S.A. of 27 March 2018.

Moreover, other firms of the Deloitte network carry out the audits of annual and reviews of interim financial statements, as well as other certification services, in favour of ASEE Group companies in countries other than Poland. In 2019, the total remuneration for such services amounted to PLN 548 thousand.

#### 9.5. Remuneration of the Management Board and Supervisory Board

The table below presents the amounts of remuneration paid to individual Members of the Parent Company's Management Board and Supervisory Board for performing their duties during the years 2019 and 2018.

Fixed remuneration for the period of	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
<b>Management Board</b>		
Piotr Jeleński	365	365
Miljan Mališ	241	175
Miodrag Mirčetić (till 30 September 2019) <sup>1)</sup>	110	214
Marcin Rulnicki	281	282
Kostadin Slavkoski (since 1 October 2019) <sup>2)</sup>	49	-
	<b>1,046</b>	<b>1,036</b>
<b>Supervisory Board</b>		
Jozef Klein	36	21
Adam Góral	30	30
Jacek Duch	60	62
Artur Kucharski	90	92
Adam Pawłowicz	60	61
	<b>276</b>	<b>266</b>

<sup>1)</sup> Mr. Miodrag Mirčetić filed a resignation from the position of Member of the Company's Management Board with effect from 1 October 2019.

<sup>2)</sup> Mr. Kostadin Slavkoski was appointed as Member of the Company's Management Board with effect from 1 October 2019.

Variable remuneration for the period of	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
<b>Management Board</b>		
Piotr Jeleński	3,138	2,012
Miljan Mališ	464	502
Miodrag Mirčetić (till 30 September 2019)	515	450
Marcin Rulnicki	882	455
Kostadin Slavkoski (since 1 October 2019)	81	-
	<b>5,080</b>	<b>3,419</b>

The amounts of remuneration disclosed in the above tables are payable for performing managerial and supervisory functions in ASEE S.A. as well as in its subsidiary companies.

Total remunerations paid or payable to members of the Management Boards and Supervisory Boards of ASEE Group subsidiaries in the year ended 31 December 2019 amounted to PLN 18,578 thousand (excluding the amounts stated in the tables above).

Total remunerations paid or payable to members of the Management Boards and Supervisory Boards of ASEE Group subsidiaries in the year ended 31 December 2018 amounted to PLN 13,596 thousand (excluding the amounts stated in the tables above).

## 9.6. Capital management

The primary objective of the Group's capital management is to maintain a favourable credit rating and a safe level of capital ratios in order to support the Group's business operations and maximize shareholder value.

The Group manages its capital structure and makes necessary adjustments in response to the changing economic conditions. In order to maintain or adjust its capital structure, the Group may decide to change its dividend policy, return some capital to shareholders, or issue new shares. During the last two years ended 31 December 2019 and 31 December 2018, we did not introduce any changes to our objectives, policies and processes adopted in this area.

The Group consistently monitors the level of its capital using the leverage ratio, which is calculated as a relation of net liabilities to total equity increased by net liabilities. Net liabilities include interest-bearing bank loans, borrowings, trade payables and other liabilities, decreased by cash and cash equivalents. The capital represents equity attributable to shareholders of the Parent Company.

Capital management	Note	31 Dec. 2019	31 Dec. 2018
Interest-bearing bank loans and borrowings		92,997	48,059
Finance lease liabilities		66,412	1,875
Trade payables, contract liabilities, state budget liabilities and other liabilities		261,634	154,888
Minus cash and cash equivalents		(199,663)	(164,887)
<b>Net debt</b>		<b>221,380</b>	<b>39,935</b>
Equity		800,203	763,425
<b>Equity and net debt</b>		<b>1,021,583</b>	<b>803,360</b>
<b>Leverage ratio</b>		<b>21.67%</b>	<b>4.97%</b>

## 9.7. Significant events after the reporting period

### ▪ Acquisition of shares in Bassilichi CEE LLC based in Banja Luka

On 20 January 2020, Payten d.o.o. (Sarajevo) acquired 100% of shares in the company Bassilichi CEE LLC based in Banja Luka.

### ▪ Establishing of a new company Payten Egypt

The establishment of Payten Egypt, based in Giza, was registered on 26 January 2020. 80% of shares in this company were acquired by Payten Sp. z o.o. sp.k.

In the period from 31 December 2019 till the date of approval of these consolidated financial statements, this is until 24 February 2020, we have not observed any other major events, the disclosure of which might significantly affect the assessment of human resources, assets and financial position of ASEE Group.

## 9.8. Significant events related to prior years

Until the date of preparing these consolidated financial statements for the period of 12 months ended 31 December 2019, we have not observed any significant events related to prior years, which have not but should have been included in these financial statements.

# Solutions for demanding business.

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