Financial Statements of ASSECO POLAND S.A.
for the year ended 31 December 2019

Financial Statements of ASSECO POLAND S.A.

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Statement of Income and Other Comprehensive Income of Asseco Poland S.A.

INCOME STATEMENT	Note	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Operating revenues	4.1	805.5	893.3
Cost of sales	4.2	(571.8)	(585.2)
Gross profit on sales		**233.7**	**308.1**
Selling costs	4.2	(46.3)	(46.4)
General and administrative expenses	4.2	(79.0)	(82.0)
Net profit on sales		**108.4**	**179.7**
Other operating income		3.9	3.4
Other operating expenses		(3.0)	(1.4)
Operating profit		**109.3**	**181.7**
Financial income	4.3	122.8	40.2
Financial expenses	4.3	(7.3)	(11.2)
Pre-tax profit		**224.8**	**210.7**
Corporate income tax	4.4	(18.0)	(44.2)
Net profit for the reporting period		**206.8**	**166.5**
Earnings per share (in PLN):			
basic earnings per share	4.5	2.49	2.01
diluted earnings per share	4.5	2.49	2.01

COMPREHENSIVE INCOME:	Note	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Net profit		**206.8**	**166.5**
Components that may be reclassified to profit or loss			
Components that will not be reclassified to profit or loss			
Amortization of intangible assets recognized directly in equity		(2.4)	(0.8)
Actuarial gains/losses		(0.6)	-
Income tax relating to components of other comprehensive income		0.6	0.1
Total other comprehensive income		**(2.4)**	**(0.7)**
TOTAL COMPREHENSIVE INCOME FOR THE REPORTING PERIOD		**204.4**	**165.8**

Financial statements for the year ended 31 December 2019 in accordance with EU IFRS (in millions of PLN)

Statement of Financial Position of Asseco Poland S.A.

ASSETS	Note	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
Non-current assets			
Property, plant and equipment	5.1	284.6	310.2
Intangible assets	5.2	2,216.1	2,213.2
of which goodwill from business combinations	5.2	*1,932.5*	*1,932.5*
Right-of-use assets	5.3	87.0	-
Investment property		0.4	0.4
Investments in subsidiaries and associates	5.4	2,073.9	2,052.1
Other receivables and trade receivables	5.6	69.6	82.7
Prepayments and accrued income	5.7	14.1	6.0
Other assets	5.8	28.3	46.4
		4,774.0	**4,711.0**
Current assets			
Inventories	5.9	8.1	2.6
Trade receivables	5.6	170.9	173.7
Contract assets	5.6	50.1	122.4
Receivables from the state and local budgets		1.4	-
Other receivables	5.6	21.1	17.4
Prepayments and accrued income	5.7	38.8	16.1
Other assets	5.8	2.6	3.0
Cash and bank deposits	5.10	168.7	264.7
		461.7	**599.9**
Non-current assets held for sale		-	6.0
		461.7	**605.9**
TOTAL ASSETS		**5,235.7**	**5,316.9**

Financial statements for the year ended 31 December 2019 in accordance with EU IFRS (in millions of PLN)

Statement of Financial Position of Asseco Poland S.A.

EQUITY AND LIABILITIES	Note	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
TOTAL EQUITY			
Share capital	5.12	83.0	83.0
Share premium		4,180.1	4,180.1
Retained earnings		629.3	686.7
		4,892.4	**4,949.8**
Non-current liabilities			
Bank loans, borrowings and debt securities	5.13	-	38.8
Lease liabilities	5.14	55.0	21.8
Other financial liabilities	5.15	6.0	2.2
Deferred tax liabilities	4.4	22.3	26.3
Contract liabilities	5.17	17.5	8.7
Other liabilities	5.16	0.1	0.5
Provisions	5.18	3.6	9.7
Accruals and deferred income	5.19	32.7	32.4
		137.2	**140.4**
Current liabilities			
Bank loans, borrowings and debt securities	5.13	-	15.2
Lease liabilities	5.14	27.6	23.6
Other financial liabilities	5.15	0.7	1.0
Trade payables	5.16	70.4	75.8
Contract liabilities	5.17	34.9	26.5
Corporate income tax payable	5.16	4.6	15.1
Other liabilities	5.16	24.7	22.6
Provisions	5.18	8.7	11.8
Accruals and deferred income	5.19	34.5	35.1
		206.1	**226.7**
TOTAL LIABILITIES		**343.3**	**367.1**
TOTAL EQUITY AND LIABILITIES		**5,235.7**	**5,316.9**

Financial statements for the year ended 31 December 2019 in accordance with EU IFRS (in millions of PLN)

Statement of Changes in Equity of Asseco Poland S.A.

	Note	Share capital	Share premium	Retained earnings	Total equity
As at 1 January 2019		**83.0**	**4,180.1**	**686.7**	**4,949.8**
Impact of the adoption of IFRS 16	2.5.i	-	-	(7.0)	**(7.0)**
As at 1 January 2019 (including impact of the adoption of IFRS 16)		**83.0**	**4,180.1**	**679.7**	**4,942.8**
Net profit for the reporting period		-	-	206.8	**206.8**
Total other comprehensive income		-	-	(2.4)	**(2.4)**
Dividend for the year 2018	4.6	-	-	(254.8)	**(254.8)**
As at 31 December 2019		**83.0**	**4,180.1**	**629.3**	**4,892.4**
As at 1 January 2018 (including impact of the adoption of IFRS 15 and IFRS 9)		**83.0**	**4,180.1**	**770.7**	**5,033.8**
Net profit for the reporting period		-	-	166.5	**166.5**
Total other comprehensive income		-	-	(0.7)	**(0.7)**
Dividend for the year 2017	4.6	-	-	(249.8)	**(249.8)**
As at 31 December 2018		**83.0**	**4,180.1**	**686.7**	**4,949.8**

Financial statements for the year ended 31 December 2019 in accordance with EU IFRS (in millions of PLN)

Statement of Cash Flows of Asseco Poland S.A.

	Note	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Cash flows – operating activities			
Pre-tax profit		224.8	210.7
Total adjustments:		**(14.5)**	**82.5**
Depreciation and amortization	4.2	63.7	56.6
Changes in working capital	6.1	40.6	53.7
Interest income/expenses		0.3	(1.0)
Gain/loss on foreign currency translation differences		(2.2)	-
Dividend income	4.3	(114.8)	(20.5)
Other financial (income) expenses		(1.1)	(4.9)
Gain/loss on investing activities		(1.0)	(1.4)
Cash generated from operating activities		**210.3**	**293.2**
Corporate income tax (paid) recovered		(29.5)	5.9
Net cash provided by (used in) operating activities		**180.8**	**299.1**
Cash flows – investing activities			
Inflows:			
Disposal of property, plant and equipment, and intangible assets	6.2	9.6	2.5
Disposal of investments in related companies	6.2	10.8	12.1
Loans collected	6.2	6.5	15.8
Dividends received		112.2	16.3
Interest received		3.4	5.5
Other inflows		-	1.4
Outflows:			
Acquisition of property, plant and equipment, and intangible assets	6.2	(46.2)	(27.1)
Expenditures for development projects in progress	6.2	(25.6)	(12.6)
Acquisition of shares in related companies	6.2	(3.6)	(16.1)
Acquisition of financial assets		-	(15.3)
Loans granted	6.2	(3.8)	(4.4)
Other outflows		-	(0.2)
Net cash provided by (used in) investing activities		**63.3**	**(22.1)**
Cash flows – financing activities			
Inflows:			
Grants received	6.3	5.1	1.0
Outflows:			
Dividends paid out	6.3	(254.8)	(249.8)
Repayments of bank loans and borrowings	6.3	(53.8)	(34.6)
Payments of lease liabilities	6.3	(31.8)	(21.9)
Grants returned	6.3	-	(9.5)
Interest paid (including interest on leases in accordance with IFRS 16)	6.3	(4.9)	(5.6)
Net cash provided by (used in) financing activities		**(340.2)**	**(320.4)**

Financial statements for the year ended 31 December 2019 in accordance with EU IFRS (in millions of PLN)

Net change in cash and cash equivalents		**(96.1)**	**(43.4)**
Net foreign currency translation differences		0.1	0.1
Cash and cash equivalents as at 1 January		264.7	308.0
Cash and cash equivalents as at 31 December	**5.10**	**168.7**	**264.7**

Financial statements for the year ended 31 December 2019 in accordance with EU IFRS (in millions of PLN)

Supplementary Information to the Financial Statements

I. General information

General information on the Company	
Name	Asseco Poland S.A.
Seat	Rzeszów, 14 Olchowa St.
National Court Register number	0000033391
REGON (statistical ID number)	010334578
Tax Identification Number	522-000-37-82
Core business	Production of software

Asseco Poland S.A. (the "Company", "Issuer", "Asseco") with registered office at 14 Olchowa St., Rzeszów, Poland, was established on 18 January 1989. On 4 January 2007, the Issuer changed its corporate name from Softbank S.A. to Asseco Poland S.A.

The period of the Company's operations is indefinite.

Since 1998, the Company's shares have been listed on the main market of the Warsaw Stock Exchange S.A.

Asseco Poland S.A. is one of the largest IT companies listed on the Warsaw Stock Exchange. The Company is also a major player in the European software producers market.

Asseco Poland S.A. focuses on the production and development of proprietary software, dedicated for each sector of the economy. As one of the very few companies in Poland, Asseco Poland develops and implements integrated core banking systems that are operated by over half of domestic banks. Furthermore, Asseco offers software solutions for the insurance industry and implements dedicated systems for the public administration, among others for the Polish Social Insurance Institution (ZUS) or the Ministry of Finance. Asseco carries out numerous IT projects for the energy industry, telecommunications, healthcare, local governments, agriculture, uniformed services as well as for international organizations and institutions, and it also provides Business Intelligence solutions.

As a leader of Asseco Group, Asseco Poland S.A. is actively engaged in mergers and acquisitions both in the Polish and foreign markets, seeking to strengthen its position across Europe and worldwide. The Company is expanding its investment spectrum for software houses, with an eye to gain insight into their local markets and customers, as well as access to innovative and unique IT solutions.

Financial statements for the year ended 31 December 2019 in accordance with EU IFRS (in millions of PLN)

II. Basis for the preparation of financial statements and accounting policies applied

2.1. Basis for preparation

These 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 liabilities carried at fair value through profit or loss, as well as investment property measured at fair value.

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

2.2. Compliance statement

These 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").

The scope of these standalone 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.

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 Company's operations, in the scope of accounting policies applied by the Company there is no difference between IFRS that came into force and IFRS endorsed by the EU.

These standalone financial statements present a true and fair view of the Company's asset and financial position as at 31 December 2019, as well as the financial results of its operations and cash flows for the year ended 31 December 2019.

2.3. Functional currency and presentation currency

The presentation currency of these financial statements is the Polish zloty (PLN), and all figures are presented in millions of PLN (mPLN), unless stated otherwise. The Polish zloty is also the functional currency applied by Asseco Poland S.A. Any inaccuracies in totals, amounting to PLN 0.1 million, are due to the adopted rounding of numbers.

Transactions denominated in currencies other than Polish zloty are, at the time of initial recognition, translated to Polish zlotys using the exchange rate effective on the transaction date.

At the reporting date:

- monetary items denominated in a foreign currency are translated at the closing exchange rate, this is at the mid exchange rate of that currency as quoted by the National Bank of Poland on the reporting date;
- non-monetary items carried at historical cost denominated in a foreign currency are translated using the exchange rate effective on the transaction date;
- non-monetary items carried at fair value denominated in a foreign currency are translated using the exchange rate effective on the fair value measurement date.

For valuation purposes, we have adopted the following exchange rates of euro and US dollar (just as the exchange rates of other currencies as quoted by the National Bank of Poland):

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

2.4. Professional judgement and estimates

Preparation of 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 Company's management best knowledge on the current activities and occurrences, the actual results may differ from those anticipated.

In relevant explanatory notes, we have 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 Company's future results.

The table below provides a list of estimates made by the Company, along with explanatory notes in which they have been described.

Selected estimates	Note	Page number
Operating revenues	4.1	20
Corporate income tax	4.4	28
Property, plant and equipment	5.1	33
Intangible assets	5.2	36
Right-of-use assets	5.3	41
Impairment testing	5.5	47
Contract assets, trade receivables and other receivables	5.6	53
Other assets	5.8	57
Lease liabilities	5.14	64
Trade payables and other liabilities	5.16	68
Provisions	5.18	71
Accruals and deferred income	5.19	74

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 financial statements for the period of 12 months ended 31 December 2018.

Financial statements for the year ended 31 December 2019 in accordance with EU IFRS (in millions of PLN)

2.5. Accounting policies applied

The table below provides a list of accounting policies applied by the Company, along with explanatory notes in which they have been described.

Selected accounting policies	Note	Page number
Operating revenues	4.1	20
Operating costs	4.2	25
Financial income and expenses	4.3	27
Corporate income tax	4.4	28
Property, plant and equipment	5.1	33
Intangible assets	5.2	36
Right-of-use assets	5.3	41
Investments in subsidiaries and associates	5.4	44
Impairment testing	5.5	47
Contract assets, trade receivables and other receivables	5.6	53
Prepayments and accrued income	5.7	56
Other assets	5.8	57
Inventories	5.9	61
Cash and cash equivalents	5.10	61
Share capital	5.12	62
Bank loans and debt securities issued	5.13	63
Lease liabilities	5.14	64
Other financial liabilities	5.15	67
Trade payables and other liabilities	5.16	68
Contract liabilities	5.17	70
Provisions	5.18	71
Accruals and deferred income	5.19	74

The accounting policies adopted in the preparation of these financial statements are consistent with those followed when preparing the Company's annual 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 standalone financial statements has been described below.

i. IFRS 16 – first-time adoption

The Company 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 Company's financial data has been presented in the table below.

The Company 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 Company 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.

Financial statements for the year ended 31 December 2019 in accordance with EU IFRS (in millions of PLN)

As at 31 December 2018, Asseco Poland S.A. was party to contracts that were classified in accordance with IAS 17 either as operating leases including contracts for perpetual usufruct of land (liabilities from such contracts were disclosed as off-balance-sheet liabilities), or as finance leases.

The largest impact on these financial statements was exerted by the remeasurement of contracts that were considered as operating leases until 31 December 2018 and disclosed in off-balance-sheet liabilities (including primarily contracts for rental of office buildings), as well as by the appropriate remeasurement of contracts for perpetual usufruct of land that were deemed to meet the definition of a lease under IFRS 16. However, the Company has not remeasured any contracts for rental of IT hardware where rented equipment is considered to be of low value. The Company had no operating leases of cars whose duration would be longer than 12 months from the reporting date. In the contract remeasurement process, the Company has applied the incremental borrowing rate calculated as the sum of the margin (obtainable by the Company as at 31 December 2018) on an investment loan adequately secured with the leased property, and the rate quoted for IRS instruments in the currency in which the lease contract is made. Both the margin and IRS rate have been selected to match the lease terms.

Practical expedients permitted by IFRS 16 used at the transition date

- The Company 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 Company 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 at the date of purchase (e.g. office equipment, small IT equipment) have not been reassessed and their recognition has remained unchanged;
- The Company has used hindsight in determining the lease term (e.g. if the contract contained an option to extend or terminate the lease);
- The Company has excluded initial direct costs from the measurement of right-of-use assets at the date of initial application;
- The Company 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 Company's statement of financial position as at 1 June 2019.

Impact of IFRS 16 on the Company's statement of financial position	**1 Jan. 2019** ***in millions of PLN***
Assets	
Right-of-use assets	103.6
including assets previously disclosed under property, plant and equipment	*(41.8)*
Deferred tax assets	13.4
Liabilities	
Lease liabilities *(excluding finance lease liabilities disclosed in accordance with IAS 17 as at 31 December 2018)*	70.5
- long-term	*62.6*
- short-term	*7.9*
Deferred tax liabilities	11.7
Net impact on equity, of which:	
Retained earnings	(7.0)

As already mentioned, the above impact is related to rentals of office space by the Company that used to be recognized as operating leases in accordance with IAS 17, as well as to the fact that some of the Company's buildings are located on perpetually leased land. Due to the fact that almost all rental agreements were concluded for periods longer than 12 months, the Company appropriately remeasured the related liabilities that used to be disclosed as off-balance-sheet liabilities as well as liabilities arising from contracts for perpetual usufruct of land, 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 in the balance of retained earnings until 1 January 2019.

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 ***mPLN***
Finance lease liabilities (IAS 17) disclosed in the statement of financial position as at 31 December 2018	**45.4**
Liabilities (and their changes) not disclosed in the statement of financial position as at 31 December 2018, of which:	**70.5**
Liabilities from operating leases (IAS 17)	26.2
Discount calculated using the incremental borrowing rate and changes in the Company's estimates concerning the options to extend or terminate rental contracts that used to be classified as operating leases	11.6
Liabilities arising from contracts for perpetual usufruct of land recognized initially in the statement of financial position as at 1 January 2019	34.7
Short-term leases (practical expedient allowing not to recognize liabilities as at 1 January 2019)	(2.0)
Lease liabilities as at 1 January 2019	**115.9**

The formula provided above was used to calculate the lessee's weighted average incremental borrowing rate applied to the recognized lease liabilities, and as at 1 January 2019 it equalled respectively:

- 3.41 % for property rental contracts (mainly office space) classified as operating leases, concluded in Polish zlotys;
- 2.73 % for property rental contracts (mainly office space) classified as operating leases, concluded in euros;
- 4.31% for contracts for perpetual usufruct of land, concluded in Polish zlotys.

Impact of the adoption of IFRS 16 on the income statement for the year ended 31 December 2019

The table below presents the impact of applying IFRS 16 on the income statement of Asseco Poland S.A. for the period of 12 months ended 31 December 2019.

Impact of IFRS 16 on the income statement	**Year ended 31 Dec. 2019 (in line with IFRS 16)**	**Adjustment due to the adoption of IFRS 16**	**Year ended 31 Dec. 2018 (excluding the adoption of IFRS 16 – in line with IAS 17)**
Operating revenues (total)	809.4	-	809.4
Operating costs (total)	(700.1)	(1.2)	(701.3)
of which depreciation of rented, leased and perpetual usufruct assets	(15.2)	8.5	(6.7) *
of which rental fees	(3.2)	(9.7)	(12.9)
Operating profit (loss)	**109.3**	**(1.2)**	**108.1**
Financial income and expenses	115.5	2.4	117.9
Pre-tax profit (loss)	**224.8**	**1.2**	**226.0**
Corporate income tax (current and deferred tax expense)	(18.0)	(0.1)	(18.1)
Net profit/loss on ordinary activities	**206.8**	**1.1**	**207.9**

** depreciation of assets held under finance lease contracts in accordance with IAS 17*

In 2019, the International Financial Reporting Interpretations Committee ("IFRIC") discussed, among others, the following issues related to the implementation of IFRS 16: rights to a specified underground space ('subsurface rights'), the lessee's incremental borrowing rate, the duration of a lease contract, as well as the useful life of investments in third-party tangible assets, and decided not to include these issues in the amendment agenda for the Standard. The Company has analyzed the Committee's arguments and concluded that the Company's accounting and reporting policies regarding the above issues are in line with the Committee's considerations.

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'

Financial statements for the year ended 31 December 2019 in accordance with EU IFRS (in millions of PLN)

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

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:

- 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;
- 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 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 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 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 7 'Interest Rate Benchmark Reform' (issued on 26 September 2019) – 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.

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.

2.7. Corrections of material errors

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

III. Information on operating segments

According to IFRS 8, an operating segment is a separable component of the Company'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. The Company has identified the following reportable segments:

Banking and Finance – this segment offers comprehensive baking systems, capital market systems (for brokerage houses, banks, firms and institutions engaged in investing activities) as well as highly specialized solutions and IT services for the commercial insurance sector. During the period of 12 months ended 31 December 2019, the segment's major clients included: Bank PKO BP S.A., SGB-Bank S.A., Bank Ochrony Środowiska S.A., Volkswagen Bank GmbH, and Getin Noble Bank S.A. Revenues from none of the above-mentioned clients exceeded 10% of the Company's total sales in the period of 12 months ended 31 December 2019.

Public Administration – within this segment Asseco Poland S.A. carries out projects including the design, development, implementation and operation of dedicated IT systems. During the period of 12 months ended 31 December 2019, the segment's major clients included: Social Insurance Institution (ZUS), National Healthcare Fund (NFZ), Frontex – European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union, Ministry of Justice, and Agricultural Social Insurance Fund (KRUS). Only revenues obtained from the Social Insurance Institution exceeded the threshold of 10% of the Company's total sales in the period of 12 months ended 31 December 2019.

General Business – this segment is engaged in the provision of dedicated IT solutions for large and medium-sized industrial enterprises. The core business areas of this segment include the sale of proprietary software (in particular billing systems) as well as information technology services such as IT consulting, systems integration and implementation, and related support services. During the period of 12 months ended 31 December 2019, the segment's major clients included: Cyfrowy Polsat Group (telecom and media), Orange Polska S.A. (telecom and media), Tauron Group (power industry), and Enea Group (power industry). Revenues from none of the above-mentioned clients exceeded 10% of the Company's total sales in the period of 12 months ended 31 December 2019.

None of the Company's operating segments needed to be combined with another operating segment in order to be identified as a reportable segment. The results achieved by individual segments are regularly monitored by the management in order to decide on allocation of resources among operating segments as well as to assess their performance and effects of such allocation. Operating profit (loss) is the main measure in evaluation of the segment's performance.

The column 'Other' includes revenues and costs related to the operations of the Group.

Financing activities (including financial expenses and income) as well as income taxes are monitored at the whole company level and therefore they are not allocated to individual operating segments. The Management also does not analyze cash flows in a breakdown to segments.

The transfer prices applied in transactions conducted between our operating segments are determined on an arm's length basis just as in case of transactions with unrelated parties.

The table below presents the key financial information reviewed by the chief operating decision maker in the Company. Apart from goodwill and intangible assets recognized in business combinations, net assets of Asseco Poland S.A. are not essentially allocated to individual segments and are not subject to review by the Company's Management in this perspective. Whereas, net operating assets are allocated to the identified segments for the purpose of carrying out impairment tests, however, such allocation is made using the allocation key.
The 2019 financial performance of both the Public Administration segment and the General Business segment was strongly affected by non-recurring events that took place during the financial year, relating to a contract termination in the first case, and in the second case to three difficult projects that the Company treated as investment projects, and therefore their profitability was not satisfactory to the Company's Management. However, the Management Board considers the events reflected in the annual results for 2019 to be one-off events and does not anticipate their recurrence in the future, as described in item 5.5. as part of the assumptions for impairment tests.

For the period of 12 months ended 31 December 2019	Banking and Finance segment	Public Administration segment	General Business segment	Other	Total	Eliminations	Total
	mPLN	*mPLN*	*mPLN*	*mPLN*	*mPLN*	*mPLN*	*mPLN*
Sales to external customers	327.1	364.8	105.1	8.5	805.5	-	**805.5**
Settlements between or within segments	43.0	(2.8)	2.6	2.4	45.2	(45.2)	-
Net profit on sales of reportable segment	**88.7**	**38.3**	**6.9**	**(25.5)**	**108.4**	**-**	**108.4**
Depreciation and amortization	(20.6)	(27.0)	(5.6)	(4.6)	(57.8)	-	**(57.8)**
Average number of employees, recalculated into full-time salaried jobs	900	886	334	67	2,187	-	**2,187**
Intangible assets recognized in business combinations allocated to the segment	9.9	44.7	-	-	54.6	n/a	**54.6**
Goodwill from business combinations allocated to the segment	896.8	854.7	181.0	n/a	1,932.5	n/a	**1,932.5**

For the period of 12 months ended 31 December 2018	Banking and Finance segment	Public Administration segment	General Business segment	Other	Total	Eliminations	Total
	mPLN	*mPLN*	*mPLN*	*mPLN*	*mPLN*	*mPLN*	*mPLN*
Sales to external customers	343.4	407.8	136.6	5.5	893.3	-	**893.3**
Settlements between or within segments	22.2	9.3	7.1	2.2	40.8	(40.8)	-
Net profit on sales of reportable segment	**108.7**	**71.6**	**25.6**	**(26.2)**	**179.7**	**-**	**179.7**
Depreciation and amortization	(18.1)	(25.6)	(6.3)	(1.5)	(51.5)	-	**(51.5)**
Average number of employees, recalculated into full-time salaried jobs	929	872	414	36	2,251	-	**2,251**
Intangible assets recognized in business combinations allocated to the segment	15.9	51.1	-	-	67.0	n/a	**67.0**
Goodwill from business combinations allocated to the segment	896.8	854.7	181.0	n/a	1,932.5	n/a	**1,932.5**

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IV. Explanatory notes to the statement of income and other comprehensive income

4.1. Structure of operating revenues

Selected accounting policies

IFRS 15 has provided the so-called 'Five-Step Model' for recognition of revenues from contracts with customers. According to the standard, revenues shall be recognized in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to customers.
The Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company (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 Company 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. Our accounting policy regarding the recognition of revenues from maintenance services remained unchanged after the adoption of IFRS 15, because in the Management's opinion 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 Company also provides a warranty for goods and services sold. Based on the conducted analysis, we have ascertained that most warranties granted by the Company 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 Company 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 Polish law. In the context of IFRS 15, the fact of granting an extended warranty indicates that the Company actually provides an additional service. In accordance with IFRS 15, this means the Company 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 Company 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 Company is involved in the sale of third-party licenses or services, we consider whether the Company acts as a principal or an agent; however, in most cases the conclusion is that the Company 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 Company 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 Company has not identified any 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 Company 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 Company 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. Therefore, as part of estimating the amount of consideration receivable under a contract, the Company estimates the expected amount of consideration while taking into account the probability of paying such contractual penalties as well as other factors that might potentially change 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 Company.

Allocating the transaction price to performance obligations

The Company 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 Company 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 Company 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 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 allowed under IFRS 15, the Company 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 the customer with 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 Company in order to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Company 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 Company satisfies the performance obligations arising from the contract.

As a practical expedient, the Company recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Company 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 Company 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:

- *a) the costs relate directly to a contract or to an anticipated contract with a customer,*
- *b) 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*
- *c) the costs are expected to be recovered.*

Other practical expedients used by the Company

When appropriate, the Company also applies a practical expedient permitted under IFRS 15 whereby if the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company'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 Company may recognize revenue in the amount it is entitled to invoice.

Estimates

As described above, the Company 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 the remaining costs and revenues 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.

Operating revenues generated during the year ended 31 December 2019 and in the comparable period were as follows:

	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Operating revenues by type of products		
Proprietary software and services	733.5	824.4
Third-party software and services	45.3	36.0
Hardware and infrastructure	26.7	32.9
Total operating revenues	**805.5**	**893.3**

i. Segment revenues in a breakdown by type of products

	Banking and Finance segment *mPLN*	Public Administration segment *mPLN*	General Business segment *mPLN*	Other *mPLN*	Total *mPLN*
12 months ended 31 Dec. 2019					
Proprietary software and services	319.4	308.0	97.9	8.2	**733.5**
Third-party software and services	4.5	37.3	3.3	0.2	**45.3**
Hardware and infrastructure	3.2	19.5	3.9	0.1	**26.7**
Total operating revenues	**327.1**	**364.8**	**105.1**	**8.5**	**805.5**
12 months ended 31 Dec. 2018					
Proprietary software and services	338.2	346.2	134.4	5.6	**824.4**
Third-party software and services	2.6	31.2	2.2	-	**36.0**
Hardware and infrastructure	2.6	30.4	-	(0.1)	**32.9**
Total operating revenues	**343.4**	**407.8**	**136.6**	**5.5**	**893.3**

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

	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Revenues from contracts with customers recognized in accordance with IFRS 15:		
From goods and services transferred over the passage of time, of which:	750.0	831.4
Banking and Finance segment	311.0	328.2
Public Administration segment	332.4	364.1
General Business segment	98.3	133.5
Others segment	8.3	5.6
From goods and services transferred at a specific point in time, of which:	55.5	61.9
Banking and Finance segment	16.1	15.2
Public Administration segment	32.4	43.7
General Business segment	6.8	3.1
Others segment	0.2	(0.1)
Other operating income	-	-
Total operating revenues	**805.5**	**893.3**

iii. Other performance obligations

The table below provides information on the total transaction price allocated to other performance obligations which remained unfulfilled (or partially unfulfilled) at the end of the reporting period. The Company has applied a practical expedient whereby it is not obliged to disclose information about the transaction price allocated to unfulfilled performance obligations, if a performance obligation is part of a contract whose expected duration is one year or shorter, or if the Company recognizes revenues from the fulfilment of a performance obligation in the amount it is entitled to invoice.

	mPLN
Value of unfulfilled performance obligations from which revenues will be recognized in the coming years	
2020*	209.6
2021	98.7
2022 and later	67.5
Total	**375.8**

** The line of 2020 includes only revenues to be recognized in the coming year from contracts to be completed after 1 January 2021 or later, which means that this amount does not include any revenues from contracts to be completed in the course or by the end of 2020.*

As at 31 December 2019, the Company analyzed the total amount of the transaction price allocated to performance obligations which remained unfulfilled (or partially unfulfilled) at the end of the reporting period. The conducted analysis showed that, as at 31 December 2019, the majority of performance obligations involving the delivery of a comprehensive IT system (measured using the percentage of completion method) resulted from contracts to be completed before or on 31 December 2020. Similarly, a significant majority of contracts for maintenance of IT systems are concluded for an indefinite period with a termination notice period shorter than 12 months, or for a definite period ending before or on 31 December 2020. Therefore, the Company considers such performance obligations to be short-term ones and thus subject to the above-described practical expedient. This means that as a result of applying the practical expedient, the table above presents in a breakdown by years only the portion of performance obligations arising from contracts to be completed in 2021 or later, or from contracts concluded for an indefinite period with a termination notice period longer than one year.

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iv. Revenues in a breakdown by countries

	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
	mPLN	*mPLN*
Poland	777.2	869.2
Foreign countries, including:	28.3	24.1
Austria	0.7	1.4
Belgium	3.6	6.6
Czech Republic	0.1	0.3
Ethiopia	0.5	4.8
France	0.2	1.0
Gibraltar	2.1	3.2
Luxembourg	0.2	1.2
Germany	15.6	-
Nigeria	1.7	-
Romania	-	0.5
Slovakia	3.0	5.0
Vietnam	0.1	-
Other	0.5	0.1
Total	**805.5**	**893.3**

4.2. Structure of operating costs

Selected accounting policies

The Company maintains cost accounting both by cost nature and by 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 (including sponsorship). General and administrative expenses include the costs of the Company's 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 Company'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 Company in exchange for work performed by their employees or for termination of employment. If an employee performs work for the Company's benefit, 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 Company, as well as post-employment benefits.

Costs related to the operation of Employee Pension Plans (PPE) represent the costs of post-employment benefits in the form of a defined contribution plan, and are recognized in the 'Costs of pension benefits' (relevant commitments are disclosed under state budget liabilities).

Estimates

Due to the fact that the Company'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 Company.

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Operating costs incurred during the year ended 31 December 2019 and in the comparable period were as follows:

	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Operating costs		
Cost of goods, materials and third-party services sold	(65.6)	(63.2)
Employee benefits	(343.8)	(354.7)
Depreciation and amortization	(57.8)	(51.5)
Third-party services *	(163.5)	(168.9)
Other	(66.4)	(75.3)
Total	**(697.1)**	**(713.6)**
Cost of sales	(573.7)	(588.6)
Selling costs	(46.3)	(46.4)
General and administrative expenses	(79.0)	(82.0)
Recognition (reversal) of allowances for trade receivables	1.9	3.4
Total	**(697.1)**	**(713.6)**

** The costs of third-party services include the costs of human resources outsourcing as well as the costs of subcontractors involved in the execution of IT projects, in total amounting to PLN 61.1 million in the period of 12 months ended 31 December 2019, as compared with PLN 38.2 million incurred in the period of 12 months ended 31 December 2018.*

In 2019, other operating costs included primarily maintenance of property and company cars in the amount of PLN 42.3 million, as well as advertising expenses in the amount of PLN 21.3 million.

Whereas, in the comparable period other operating costs included primarily maintenance of property and company cars in the amount of PLN 49.2 million, as well as advertising expenses in the amount of PLN 21.2 million.

i. Costs of employee benefits

	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Salaries	(285.6)	(298.6)
Social insurance contributions	(23.1)	(24.4)
Costs of pension benefits	(26.8)	(22.4)
Other post-employment benefits	(1.7)	(2.2)
Other costs of employee benefits	(6.6)	(7.1)
Total costs of employee benefits	**(343.8)**	**(354.7)**

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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 (5.1), intangible assets (5.2), as well as in right-of-use assets (5.3):

	Note	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Depreciation charges for the year as disclosed in the table of changes in property, plant and equipment	5.1	(24.1)	(31.2)
Amortization charges for the year as disclosed in the table of changes in intangible assets	5.2	(31.0)	(27.5)
Depreciation charges for the year as disclosed in the table of changes in right-of-use assets	5.3	(15.2)	-
Amortization charges recognized directly in other comprehensive income		2.4	0.8
Reduction of amortization charges due to recognition of grants to internally generated licenses		1.4	1.3
Capitalization of amortization charges on research and development projects and work in progress		2.8	-
Total depreciation and amortization charges disclosed in the statement of cash flows		**(63.7)**	**(56.6)**
Depreciation of rental property recognized in other operating expenses		5.9	5.1
Total depreciation and amortization charges recognized in operating costs		**(57.8)**	**(51.5)**

4.3. Financial income and expenses

Selected accounting policies

Interest income comprises primarily interest on investments in debt securities (including in particular loans granted) and on bank deposits. Such income is measured at amortized cost using the effective interest rate.
Other interest income comprises interest on trade receivables, as well as discounts on costs (liabilities) accounted for using the effective interest method.
Dividends are recognized when the shareholder's right to receive payment is established (i.e. most often on the so-called dividend record date or, if such a date is not determined in the resolution of the shareholders meeting, on the date of adopting the resolution on the distribution of profit).
Interest expenses incurred on external financing obtained by the Company and on lease liabilities 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 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Interest income on investments in debt securities and bank deposits carried at amortized cost	5.0	6.5
Other interest income	-	0.2
Positive foreign currency translation differences	1.1	5.0
Dividends received and receivable	114.8	20.5
Gain on sale of shares in subsidiaries	1.0	-
Reversal of impairment losses on financial instruments	0.9	8.0
Total	**122.8**	**40.2**

The significant increase in dividend income in 2019 as compared to the previous reporting period resulted from the fact of receiving a dividend from Asseco International.

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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 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Interest expenses on bank loans, debt securities and trade payables	(0.6)	(2.8)
Interest expenses on leases	(4.3)	(3.1)
Other interest expenses	(1.6)	(2.1)
Loss on impairment of financial assets carried at fair value through profit or loss	-	(0.3)
Allowances for receivables	-	(0.1)
Loss on exercise and/or valuation of derivative instruments	(0.7)	(2.8)
Other financial expenses	(0.1)	-
Total	**(7.3)**	**(11.2)**

Positive and negative foreign currency translation differences are presented in net amounts (reflecting the excess of positive differences over negative differences or otherwise).

4.4. Corporate income tax

Selected accounting policies

The Company 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.

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 Company makes an assessment of realizability of deferred income tax assets at each reporting date. This assessment requires the exercise of professional judgment and estimates.

Pursuant to IFRIC 23, if the Company believes it is probable that its particular tax treatment or group of tax treatments will be accepted by the taxation authority, then the Company shall determine the taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates consistently with the tax treatment that it used or plans to use in its income tax filings. When assessing such probability, the Company shall assume that the taxation authority which is authorized to inspect and challenge its tax treatments will carry out such an inspection and will have access to all information.

If the Company concludes it is not probable that its particular tax treatment or group of tax treatments will be accepted by the taxation authority, then the Company shall reflect the effects of such uncertainty in accounting for income tax for the period when so ascertained. The Company shall recognize an income tax liability using one of the following two methods, depending on which approach provides better predictions of the resolution of the uncertainty:

- *the Company determines the most likely scenario – the single most likely amount in a range of possible outcomes, or*
- *the Company recognizes the expected value – the sum of amounts weighted by the probability of possible outcomes.*

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

	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
	mPLN	*mPLN*
Current income tax and prior years' adjustments	(19.7)	(36.1)
Deferred income tax	1.7	(8.1)
Income tax expense as disclosed in the income statement	**(18.0)**	**(44.2)**

The table below presents the amount of current income tax expense for 2019 and the comparable period, as disclosed in the income statement, in a breakdown by type of operations and other items:

Current corporate income tax expense	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
	mPLN	*mPLN*
Current income tax – core operations	(23.6)	(33.0)
Current income tax – capital gains	(1.9)	(0.8)
Corrections of CIT filings for prior years	4.3	(0.8)
Provision for income tax on controlled foreign companies (CFC)	1.5	(1.5)
Total corporate income tax expense as disclosed in the income statement	**(19.7)**	**(36.1)**

Uncertainty over income tax treatments

On 15 July 2016, Poland's Tax Code was amended to include the provisions of General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the creation and use of artificial legal arrangements aiming to avoid payment of taxes in Poland. GAAR defines tax avoidance as an action carried out for the essential purpose of obtaining a tax benefit that under the circumstances is inconsistent with the object and purpose of relevant tax provisions. According to GAAR, an action shall not result in achieving a tax advantage if it is conducted on a non-genuine basis. The occurrence of (i) an unjustified division of operations, (ii) involvement of intermediaries without an economic or commercial reason, (iii) mutually cancelling or offsetting elements, as well as (iv) any other actions of similar nature may be considered to indicate the undertaking of artificial actions that are subject to GAAR provisions. The new regulations will require much greater judgment when assessing the tax effects of each transaction.

The general anti-abuse rule shall apply to transactions conducted after its entry into force as well as to transactions that were carried out prior to its entry into force but brought tax benefits after that time or still continue to bring such benefits. The implementation of the above-mentioned regulations shall enable the Polish tax control authorities to put into question the legal arrangements and agreements undertaken by taxpayers, including the restructuring or reorganization of a group of companies.

Regulations pertaining to the value added tax, corporate income tax, personal income tax or social security are frequently amended, thereby depriving taxpayers of a possibility to refer to well established court decisions and precedents. The current regulations in force are not always unambiguous, which may cause additional discrepancies in their interpretation. Tax treatments are subject to control by the taxation authorities. Should any irregularities in tax settlements be detected, a taxpayer is obliged to pay the outstanding amounts along with the statutory interest thereon. Payment of tax arrears does not always release a taxpayer from penal and fiscal liability. Due to such circumstances, tax treatments are subject to a relatively high risk. Settlement of tax liabilities may come under control in a period of five years, counting from the end of the year in which relevant tax returns were filed. In effect, the amounts of taxes payable disclosed in the financial statements may be later changed, after they are finally determined by the taxation authorities.

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Presented below is the reconciliation of corporate income tax payable on pre-tax profit at the statutory tax rate, with corporate income tax computed at the effective tax rate.

	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
Pre-tax profit from continuing operations	**224.8**	**210.7**
Statutory corporate income tax rate	19%	19%
Corporate income tax computed at the statutory tax rate	**42.7**	**40.0**
Dividends received from subsidiaries and associates	(19.0)	(2.0)
Expenses related to tax-exempt dividend income	2.2	0.2
R&D tax reliefs (including prior year adjustments)	(6.4)	-
CIT (difference between corporate income tax recognized and the CIT-8 tax filing)	(0.8)	0.4
Income tax of controlled foreign companies (CFC)	(1.5)	1.5
Reversal of deferred tax assets from contractual penalties	-	4.2
Reversal of allowances for loans granted	(0.2)	(1.5)
Other permanent differences	1.0	1.4
Corporate income tax computed at the effective tax rate	**18.0**	**44.2**
Effective rate of corporate income tax	**8.0%**	**21.0%**

Such low level of effective tax rate in 2019 resulted from the utilization of research and development tax reliefs for prior years in the current period.

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	Deferred tax liabilities			Deferred tax assets			Comprehensive income for the period
	31 Dec. 2019	Adjustments resulting from the adoption of IFRS 16	31 Dec. 2018	31 Dec. 2019	Adjustments resulting from the adoption of IFRS 16	31 Dec. 2018	12 months ended 31 Dec. 2019
	mPLN	mPLN	mPLN	mPLN	mPLN	mPLN	mPLN
Property, plant and equipment	14.2	-	13.2	8.0	-	8.9	(1.9)
Intangible assets	25.4	-	25.0	-	-	-	(0.4)
Right-of-use assets (as at 31 Dec. 2018, assets under finance leases in accordance with IAS 17)	12.8	11.7	5.0	-	-	-	3.9
Shares in subsidiaries	-	-	-	0.7	-	0.7	-
Equity instruments carried at fair value through profit or loss	-	-	-	0.1	-	0.1	-
Financial assets carried at fair value through profit or loss	0.6	-	0.3	0.7	-	0.3	0.1
Loans	0.1	-	0.1	0.1	-	-	0.1
Inventories	-	-	-	0.1	-	-	0.1
Prepayments	7.1	-	1.7	1.7	-	3.2	(6.9)
Trade receivables	0.2	-	0.4	2.5	-	2.9	(0.2)
Contract assets	9.5	-	23.3	-	-	-	13.8
Other receivables	6.5	-	5.0	4.7	-	3.3	(0.1)
Non-current assets classified as held for sale	-	-	0.3	-	-	0.2	0.1
Provisions	-	-	-	2.5	-	4.4	(1.9)
Trade payables	-	-	-	3.0	-	2.7	0.3
Contract liabilities	-	-	-	1.5		1.5	-
Financial liabilities	-	-	-	15.7	13.4	8.6	(6.3)
Other liabilities	1.4	-	-	0.1	-	-	(1.3)
Accruals and deferred income	-	-	-	14.7	-	11.8	2.9
Deferred tax liabilities, gross	**77.8**	**11.7**	**74.3**				**8.2**
Deferred tax assets, gross				**56.1**	**13.4**	**48.6**	**(5.9)**
Write-down due to inability to realize a deferred tax asset				**(0.6)**	**-**	**(0.6)**	**-**
Deferred tax assets (+) / liabilities (-), net	**(22.3)**	**1.7**	**(26.3)**				
Change in deferred income tax in the reporting period, of which:							**2.3**
change in deferred income tax recognized directly in other comprehensive income							0.6
deferred income tax change recognized in the income statement							**1.7**

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4.5. Earnings per share

Selected accounting policies

Basic earnings per share 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 the given reporting period.

Diluted earnings per share 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 the given reporting period and all shares of potential new issues.

Both during the period of 12 months ended 31 December 2019 and in the comparable period, the Company had no instruments that could potentially dilute basic earnings per share.

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	83,000,303	83,000,303
Net profit for the reporting period (in millions of PLN)	206.8	166.5
Net earnings per share (in PLN)	**2.49**	**2.01**

4.6. Information on dividends paid out

On 26 April 2019, Asseco Poland S.A. held its Annual General Meeting of Shareholders which resolved that the whole amount of net profit for the financial year 2018, which equalled PLN 166.5 million, shall be distributed among Shareholders in the form of a dividend payment. Additionally, the General Meeting of Shareholders decided to increase such dividend payment by distributing a portion of prior years' retained earnings in the amount of PLN 88.3 million. This means that the total amount allocated to dividend payment reached PLN 254.8 million or PLN 3.07 per share. The dividend record date was set for 20 May 2019; whereas, the dividend payment was scheduled for 5 June 2019.

On 25 April 2018, Asseco Poland S.A. held its Annual General Meeting of Shareholders which resolved that the whole amount of net profit for the financial year 2017, which equalled PLN 175.6 million, shall be distributed among Shareholders in the form of a dividend payment. Additionally, the General Meeting of Shareholders decided to increase such dividend payment by distributing a portion of prior years' retained earnings in the amount of PLN 74.3 million. This means that the total amount allocated to dividend payment reached PLN 249.8 million or PLN 3.01 per share. The dividend record date was set for 21 May 2018; whereas, the dividend payment was scheduled for 7 June 2018.

V. Explanatory notes to the statement of financial position

5.1. Property, plant and equipment

Selected accounting policies

Initial recognition and measurement of property, plant and equipment

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 also include the cost of replacing parts of machinery or equipment at the time when incurred if the asset 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.

Impairment

At each reporting date, the Company 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 Company 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 through profit or loss in 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 Company 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 Company determines if there are any objective indications of impairment of a given component of property, plant and equipment. In addition, at the end of each financial year, the Company verifies the periods of useful life of property, plant and equipment.

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:

	Period (in years)
Land and buildings	0-50
Computers and other office equipment	3-7
Transportation vehicles	2-4
Other tangible assets	2-40
Leasehold improvements	3-10

The Company verifies the adopted periods of useful life on an annual basis, taking into account the current estimates. In 2019, the rates of depreciation and amortization applied by the Company were not subject to any significant modifications.

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

	Land and buildings	Computers and other office equipment	Transportation vehicles	Other tangible assets	Tangible assets under construction	Total
As at 1 January 2019, less accumulated depreciation and impairment losses	**229.5**	**53.5**	**15.4**	**7.7**	**4.1**	**310.2**
Impact of IFRS 16 on the opening balance	(39.7)	(2.1)	-	-	-	(41.8)
Additions, of which:	**3.3**	**13.1**	**7.2**	**0.9**	**19.6**	**44.1**
Purchases and modernization	2.3	11.7	6.4	0.9	19.6	**40.9**
Transfers from tangible assets under construction	0.1	1.4	0.8	-	-	**2.3**
Transfers from non-current assets held for sale	0.9	-	-	-	-	**0.9**
Reductions, of which:	**(6.2)**	**(10.7)**	**(6.0)**	**(2.6)**	**(2.4)**	**(27.9)**
Depreciation charges for the reporting period	(6.0)	(10.5)	(5.0)	(2.6)	-	**(24.1)**
Disposal and liquidation	(0.2)	(0.2)	(1.0)	-	-	**(1.4)**
Transfers from tangible assets under construction	-	-	-	-	(2.4)	**(2.4)**
As at 31 December 2019, less accumulated depreciation and impairment losses	**186.9**	**53.8**	**16.6**	**6.0**	**21.3**	**284.6**
As at 1 January 2019 (after adoption of IFRS 16)						
Gross value	234.9	128.6	26.2	33.0	4.1	**426.8**
Accumulated depreciation and impairment losses	(45.1)	(77.2)	(10.8	(25.3)	-	**(158.4)**
Net book value as at 1 January 2019	**189.8**	**51.4**	**15.4**	**7.7**	**4.1**	**268.4**
As at 31 December 2019						
Gross value	238.2	141.7	33.3	33.9	21.3	**468.4**
Accumulated depreciation and impairment losses	(51.3)	(87.9)	(16.7)	(27.9)	-	**(183.8)**
Net book value as at 31 December 2019	**186.9**	**53.8**	**16.6**	**6.0**	**21.3**	**284.6**

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	Land and buildings	Computers and other office equipment	Transportation vehicles	Other tangible assets	Tangible assets under construction	Total
As at 1 January 2018, less accumulated depreciation and impairment losses	**243.4**	**55.6**	**14.5**	**7.7**	**0.9**	**322.1**
Additions, of which:	**-**	**10.5**	**6.3**	**2.3**	**6.0**	**25.1**
Purchases and modernization	-	9.6	5.4	1.3	6.0	**22.3**
Transfers from tangible assets under construction	-	0.9	0.9	1.0	-	**2.8**
Reductions, of which:	**(13.9)**	**(12.6)**	**(5.4)**	**(2.3)**	**(2.8)**	**(37.0)**
Depreciation charges for the reporting period	(11.6)	(12.5)	(4.8)	(2.3)	-	**(31.2)**
Disposal and liquidation	(2.3)	(0.1)	(0.6)	-	-	**(3.0)**
Transfers from tangible assets under construction	-	-	-	-	(2.8)	**(2.8)**
As at 31 December 2018, less accumulated depreciation and impairment losses	**229.5**	**53.5**	**15.4**	**7.7**	**4.1**	**310.2**
As at 1 January 2018						
Gross value	343.8	126.8	25.9	31.4	0.9	**528.8**
Accumulated depreciation and impairment losses	(100.4)	(71.2)	(11.4)	(23.7)	-	**(206.7)**
Net book value as at 1 January 2018	**243.4**	**55.6**	**14.5**	**7.7**	**0.9**	**322.1**
As at 31 December 2018						
Gross value	340.4	131.4	26.2	33.0	4.1	**535.1**
Accumulated depreciation and impairment losses	(110.9)	(77.9)	(10.8)	(25.3)	-	**(224.9)**
Net book value as at 31 December 2018	**229.5**	**53.5**	**15.4**	**7.7**	**4.1**	**310.2**

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5.2. Intangible assets

Selected accounting policies

Intangible assets purchased

Intangible assets purchased in a separate transaction shall be capitalized at purchase cost. The purchase cost of intangible assets acquired under a business combination shall be equal to their fair value as at the merger date.

Goodwill

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

In the standalone financial statements, goodwill is an asset arising from combinations of businesses under common control. The amount of goodwill is initially measured as the excess of the purchase price paid over the net value of identifiable assets acquired and, in the standalone accounting books, it is recognized at the date of merger of the acquired businesses.

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 a capital group, or a merger of a parent company with its subsidiary.

The effects of combinations of businesses under common control are accounted for by the Company 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 Company'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;*
- *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.*

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 Asseco Poland S.A. are combined, the carrying value of investment in the acquiree subsidiary is only transferred to the value of investment in the acquirer subsidiary. Hence, a takeover of one subsidiary by another subsidiary has no impact on the Company's financial results whatsoever.

"ASSECO" trademark

The ASSECO trademark is the only intangible asset considered by the Management Board to have an indefinite useful life. Therefore, this asset is not amortized and only tested for impairment on an annual basis. The Management Board has decided that the useful life of this trademark is indefinite, because it is expected to contribute to the generation of net cash flows by the Company in the future for an indefinite period of time.

For impairment testing purposes, this trademark is considered to be a common asset and its value is allocated on a consistent basis (using the allocation key) to individual operating segments that are treated as cash-generating units.

Internally generated intangible assets

The Company presents in separate categories the final products of development projects ("internally generated software") 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) may be recognized if, and only if, the Company is able to demonstrate:

- *the technical feasibility of completing such intangible asset so that it would be available for use or sale;*
- *the intention to complete the construction of such intangible asset;*
- *the ability to use or sell such intangible asset;*
- *how such intangible asset is going to generate probable future economic benefits;*
- *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;*
- *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.

Such costs shall include basically employee benefits, expenditures for materials and services that are used or consumed directly in the project implementation, depreciation charges on equipment used in the generation process, as well as costs of any office space utilized by the development team.

Until completion of the development work, accumulated costs directly attributable to such development work are disclosed as "costs of development projects in progress". Upon completion of the development work, the ready-made product of the development work is reclassified to the category of "Internally generated software" and from that time the Company begins to amortize such internally generated software. Costs of development work which satisfy the above-mentioned criteria are capitalized at purchase cost less accumulated amortization and accumulated impairment losses. All the expenditures related to completed development projects are subject to amortization over the estimated period in which the related undertaking generates sales revenues.

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.

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. The remaining intangible assets shall be tested for impairment if there are indications of a possible impairment. 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 as other operating income or expenses in the income statement at the time when such derecognition is made.

Estimates

At each reporting date, the Company determines if there are any objective indications of impairment of a given component of intangible assets, as described in note 5.5 below.

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 periods of useful life are presented in the table below:

Type	**Period** (in years)
Purchased licenses and software	2-5
Costs of research and development work	2-10
Customer relations	18-19
Other	4-18

The Company verifies the adopted periods of useful life on an annual basis, taking into account the current estimates. In 2019, the amortization rates of intangible assets used by the Company were not subject to any significant modifications.

The costs of internally generated intangible assets are measured and capitalized in line with the Company'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 Company 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.

Thus, 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. 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.

Intangible assets recognized in business combinations

The table below presents intangible assets recognized in business combinations of Asseco Poland S.A. with other companies:

	Customer relations	Internally generated software	Total
As at 1 January 2019:			
Gross value	130.0	63.1	193.1
Accumulated amortization	(74.8)	(51.3)	(126.1)
Net book value as at 1 January 2019	**55.2**	**11.8**	**67.0**
As at 31 December 2019:			
Gross value	130.0	63.1	193.1
Accumulated amortization	(81.8)	(56.7)	(138.5)
Net book value as at 31 December 2019	**48.2**	**6.4**	**54.6**
Amortization charges for the reporting period	(7.0)	(5.4)	(12.4)
As at 1 January 2018:			
Gross value	130.0	63.1	193.1
Accumulated amortization	(67.8)	(47.5)	(115.3)
Net book value as at 1 January 2018	**62.2**	**15.6**	**77.8**
As at 31 December 2018:			
Gross value	130.0	63.1	193.1
Accumulated amortization	(74.8)	(51.3)	(126.1)
Net book value as at 31 December 2018	**55.2**	**11.8**	**67.0**
Amortization charges for the reporting period	(7.0)	(3.8)	(10.8)

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

	Goodwill	Internally generated software	Costs of development projects in progress	Purchased software, patents, licenses and other intangibles	Intangible assets recognized in business combinations	"ASSECO" trademark	Total
As at 1 January 2019, less accumulated amortization and impairment losses	**1,932.5**	**20.3**	**34.5**	**21.3**	**67.0**	**137.6**	**2,213.2**
Additions, of which:	**-**	**11.1**	**27.1**	**8.5**	**-**	**-**	**46.7**
Purchases and modernization	-	-	-	8.5	-	-	**8.5**
Capitalization of the costs of research and development projects	-	-	27.1	-	-	-	**27.1**
Transfers from the costs of development projects in progress	-	11.1	-	-	-	-	**11.1**
Reductions, of which:	**-**	**(8.1)**	**(12.8)**	**(10.5)**	**(12.4)**	**-**	**(43.8)**
Amortization charges for the reporting period	n/a	(8.1)	n/a	(10.5)	(12.4)	n/a	**(31.0)**
Disposal and liquidation	-	-	(1.7)	-	-	-	**(1.7)**
Transfers to internally generated software	-	-	(11.1)	-	-	-	**(11.1)**
Net book value as at 31 December 2019	**1,932.5**	**23.3**	**48.8**	**19.3**	**54.6**	**137.6**	**2,216.1**
As at 1 January 2019							
Gross value	2,012.7	91.7	43.9	131.5	193.1	137.6	**2,610.5**
Accumulated amortization and impairment losses	(80.2)	(71.4)	(9.4)	(110.2)	(126.1)	-	**(397.3)**
Net book value as at 1 January 2019	**1,932.5**	**20.3**	**34.5**	**21.3**	**67.0**	**137.6**	**2,213.2**
As at 31 December 2019							
Gross value	2,012.7	102.8	58.2	140.0	193.1	137.6	**2,644.4**
Accumulated amortization and impairment losses	(80.2)	(79.5)	(9.4)	(120.7)	(138.5)	-	**(428.3)**
Net book value as at 31 December 2019	**1,932.5**	**23.3**	**48.8**	**19.3**	**54.6**	**137.6**	**2,216.1**

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	Goodwill	Internally generated software	Costs of development projects in progress	Purchased software, patents, licenses and other intangibles	Intangible assets recognized in business combinations	"ASSECO" trademark	Total
As at 1 January 2018, less accumulated amortization and impairment losses	**1,932.5**	**26.4**	**23.5**	**19.3**	**77.8**	**137.6**	**2,217.1**
Additions, of which:	**-**	**1.6**	**13.4**	**11.0**	**-**	**-**	**26.0**
Purchases and modernization	-	-	-	11.0	-	-	**11.0**
Capitalization of the costs of research and development projects	-	-	13.4	-	-	-	**13.4**
Transfers from the costs of development projects in progress	-	1.6	-	-	-	-	**1.6**
Reductions, of which:	**-**	**(7.7)**	**(2.4)**	**(9.0)**	**(10.8)**	**-**	**(29.9)**
Amortization charges for the reporting period	n/a	(7.7)	n/a	(9.0)	(10.8)	n/a	**(27.5)**
Impairment losses and liquidation	-	-	(0.8)	-	-	-	**(0.8)**
Transfers to internally generated software	-	-	(1.6)	-	-	-	**(1.6)**
Net book value as at 31 December 2018	**1,932.5**	**20.3**	**34.5**	**21.3**	**67.0**	**137.6**	**2,213.2**
As at 1 January 2018							
Gross value	2,012.7	90.1	32.1	120.5	193.1	137.6	**2,586.1**
Accumulated amortization and impairment losses	(80.2)	(63.7)	(8.6)	(101.2)	(115.3)	-	**(369.0)**
Net book value as at 1 January 2018	**1,932.5**	**26.4**	**23.5**	**19.3**	**77.8**	**137.6**	**2,217.1**
As at 31 December 2018							
Gross value	2,012.7	91.7	43.9	131.5	193.1	137.6	**2,610.5**
Accumulated amortization and impairment losses	(80.2)	(71.4)	(9.4)	(110.2)	(126.1)	-	**(397.3)**
Net book value as at 31 December 2018	**1,932.5**	**20.3**	**34.5**	**21.3**	**67.0**	**137.6**	**2,213.2**

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The largest portion of intangible assets is constituted by goodwill recognized from business combinations that were carried out in the years 2007-2016. As at 31 December 2019 and in the comparable period, goodwill arising from business combinations amounted to PLN 1,932.5 million.

Goodwill is allocated to the following operating segments which are treated as cash-generating units:

	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
Goodwill allocated to the Banking and Finance segment	896.8	896.8
Goodwill allocated to the Public Administration segment	854.7	854.7
Goodwill allocated to the General Business segment	181.0	181.0
Goodwill presented in intangible assets	**1,932.5**	**1,932.5**

Costs of development projects in progress

In the year ended 31 December 2019, capitalized expenditures for development projects totalled PLN 27.1 million, of which PLN 8.8 million were spent in the Banking and Finance segment, PLN 8.3 million in the Public Administration segment, and PLN 10.0 million in the General Business segment. Whereas, in the year ended 31 December 2018, capitalized expenditures for development projects totalled PLN 13.4 million, of which PLN 2.5 million were spent in the Banking and Finance segment, PLN 2.8 million in the Public Administration segment, and PLN 8.1 million in the General Business segment.

The largest development projects conducted during the year ended 31 December 2019 included the following:

- *AUMIS*

This project aims to develop a version of AUMS (Asseco Utility Management Solutions) ready to be sold and implemented as a Billing & CIS class solution in the power utility sector. It will in particular involve the translation of the UMTS system into English, its preparation for translation into other languages, as well as expansion of its functionality in order to meet the requirements in foreign markets.
Until 31 December 2019, total expenditures that have been capitalized as intangible assets amounted to PLN 28.0 million, of which PLN 10.0 million in 2019. This project was completed on 31 December 2019 and recognized in intangible assets in the first quarter of 2020.

- *AMMSPLUS*

The goal of this project is to change the graphical user interface technology in the AMMS system. The Company will develop and implement a proprietary tool for smooth introduction of technological changes in the application production process, and also develop a prototype version of the Asseco Medical Management Solutions PLUS system. This product is dedicated to the Healthcare sector.
Until 31 December 2019, total expenditures that have been capitalized as intangible assets amounted to PLN 7.5 million, of which PLN 7.5 million in 2019. The project will be completed in the second quarter of 2021.

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5.3. Right-of-use assets

Selected accounting policies

In accordance with IFRS 16, 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 right to control the use is transferred under a contract if the lessee has both of the following:

- *the right to obtain substantially all of the economic benefits from use of the identified asset; and*
- *the right to direct the use of the identified asset.*

The above-described principles for the identification of leases have been applied by the Company since the date of adopting the standard; however, as at the date of initial application the Company has used a practical expedient permitted by IFRS 16 as already mentioned. Therefore, in respect of contracts that were entered into prior to the date of initial application of the new standard, the Company did not to reassess whether a contract is a lease or contains a lease. The accounting policy applied till 31 December 2018 was in compliance with IAS 17, as described in the financial statements of Asseco Poland S.A. for the year ended 31 December 2018 which were published on 25 March 2019.

Initial recognition and measurement of right-of-use assets

In the case of contracts identified as leases, the Company recognizes 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 Company). 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 Company 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 Company basically using the straight-line method. If the lease transfers ownership of the underlying asset to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option, the Company 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 Company 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.

Practical expedients for short-term leases and leases of low-value assets

The Company applies a practical expedient to rental contracts and other contracts of similar nature that are concluded for a period shorter than 12 months from the lease commencement date.

Whereas, the practical expedient for leases of low-value assets is applied by the Company primarily to leases of IT hardware and other equipment with a low initial value. According to guidance provided by the International Accounting Standards Board, items whose value does not exceed USD 5 thousand may be considered as low-value assets.

In both the above-mentioned exceptions, the lease payments are recognized as operating expenses basically on a straight-line basis, in the period to which they are related. The recognition of costs in the appropriate category, by function or nature, depends on the purpose of the leased asset. In such case, the Group does not recognize any right-of-use assets or corresponding financial liabilities.

Exemptions from applying IFRS 16

The Company does not apply the provisions of IFRS 16 to rental contracts and other contracts of similar nature for which the underlying assets are recognized as intangible assets. Moreover, IFRS 16 does not apply to intellectual property licensing agreements which are within the scope of IAS 38.

Estimates

At each reporting date, the Company determines if there are any objective indications of impairment of a given right-of-use asset. In addition, at the end of each financial year, the Company's Management makes judgments for contracts concluded for an indefinite period in order to determine their duration with reasonable certainty.

The periods of useful life are presented in the table below:

	Period (in years)
Land and buildings	2-70 years
Computers and other office equipment	3-4 years
Transportation vehicles	5 years

The Company applies the provisions of IAS 36 'Impairment of Assets' to determine whether the right-of-use asset is impaired. At each reporting date, the Company determines if there are any objective indications of impairment of a given right-of-use asset. In addition, at the end of each financial year, the Company's Management makes judgments for contracts concluded for an indefinite period in order to determine their duration with reasonable certainty.

As described in explanatory note 2.5 to these financial statements, the Company has adopted the new IFRS 16 standard as of 1 January 2019. Following the adoption of this standard, the Company 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 Company has not restated the relevant data for the comparable period and such data are not presented.

	Land and buildings	Computers and other office equipment	Transportation vehicles	Total
As at 1 January 2019, less accumulated depreciation and impairment losses (after the adoption of IFRS 16)	**101.4**	**2.1**	**0.1**	**103.6**
Additions, of which:	**0.1**	**-**	**-**	**0.1**
Conclusion of new lease contracts	0.1	-	-	0.1
Reductions, of which:	**(16.2)**	**(0.7)**	**-**	**(16.9)**
Depreciation charges for the reporting period	(14.5)	(0.7)	-	(15.2)
Modification of existing contracts (lease shortening, interest rate change)	(0.4)	-	-	(0.4)
Early termination of contracts	(1.3)	-	-	(1.3)
Changes in presentation methods	**0.2**	**-**	**-**	**0.2**
As at 31 December 2019, less accumulated depreciation and impairment losses	**85.5**	**1.4**	**0.1**	**87.0**
As at 1 January 2019				
Gross value	167.3	2.8	0.2	170.3
Accumulated depreciation and impairment losses	(65.9)	(0.7)	(0.1)	(66.7)
Net book value as at 1 January 2019	**101.4**	**2.1**	**0.1**	**103.6**
As at 31 December 2019				
Gross value	166.1	2.8	0.2	169.1
Accumulated depreciation and impairment losses	(80.6)	(1.4)	(0.1)	(82.1)
Net book value as at 31 December 2019	**85.5**	**1.4**	**0.1**	**87.0**

5.4. Investments in subsidiaries and associates

Selected accounting policies

Subsidiaries are entities in which the Company possess all the following three elements of control:

- *power over the investee;*
- *rights to variable returns from involvement with the investee; and*
- *the ability to use power over the investee to affect the amount of the investor's returns.*

Associates are entities in which the Company holds more than 20% and not more than 50% of voting rights at the general meeting of shareholders and on which the Company exerts a significant influence, however, without the ability to control them jointly. This means they are neither subsidiaries nor joint ventures.

Investments in subsidiaries and associates are recognized by the Company at historical cost less any impairment charges.

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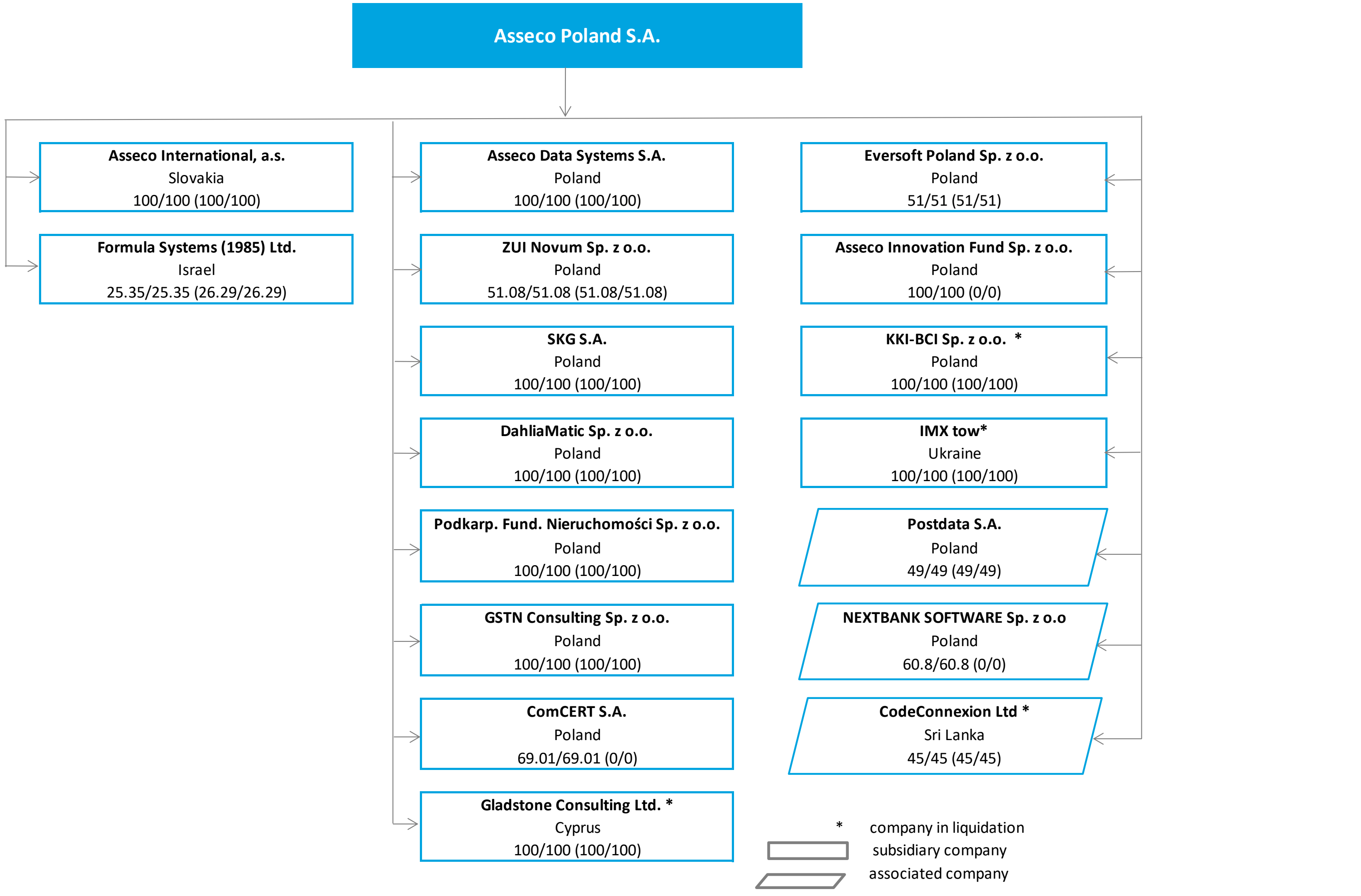
The Company’s investments in subsidiaries and associates are presented in the chart below:



100/100 voting rights / equity interest as at 31 December 2019 (in %)
(100/100) voting rights / equity interest as at 31 December 2018 (in %)

The Company's equity investments held as at 31 December 2019 and in the comparable period are disclosed in the table below:

	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
Investments in companies quoted in an active market		
Formula Systems (1985), Ltd.	242.6	242.6
Investments in non-listed companies		
Asseco International A.S.	1,178.7	1,178.7
Asseco Data Systems S.A.	414.6	414.6
Podkarpacki Fundusz Nieruchomości Sp. z o.o.	89.2	89.2
DahliaMatic Sp. z o.o.	73.6	73.6
GSTN Consulting Sp. z o.o. and Gladstone Consulting Ltd.	33.8	33.8
Nextbank Software Sp. z o.o.	17.3	-
SKG S.A.	14.2	14.2
ZUI Novum Sp. z o.o.	3.9	3.9
ComCERT S.A.	3.5	-
Asseco Innovation Fund Sp. z o.o.	1.0	-
Postdata S.A. (associated company)	1.0	1.0
Eversoft Poland Sp. z o.o.	0.5	0.5
	2,073.9	**2,052.1**

During the period of 12 months ended 31 December 2019, Asseco Poland's investments in subsidiaries and associates changed as follows:

- ***Establishing of a new company Asseco Innovation Fund Sp. z o.o.***

On 13 February 2019, Asseco Poland S.A. established a new company called Asseco Innovation Fund Sp. z o.o. The newly founded company is a 100% owned subsidiary of Asseco Poland S.A. On 7 August 2019, the share capital of this company was increased by 200 newly issued shares.

- ***Acquisition of shares in Nextbank Software Sp. z o.o.***

On 25 February 2019, following an increase of the share capital of Nextbank Software Sp. z o.o., Nextbank Software Sp. z o.o. obtained registration of an additional issuance of shares dedicated to Asseco Poland S.A. Hence, on 25 February 2019, Asseco Poland S.A. acquired a 9.8% stake in Nextbank Software Sp. z o.o. On 4 March 2019, subsequently to meeting the second condition specified under the investment agreement (signed on 28 November 2018), Asseco Poland S.A. effectively acquired an additional 51% stake in the said company. After conducting this transaction (this is as at 4 March 2019), Asseco Poland S.A. holds in total 60.8% of shares in Nextbank Software Sp. z o.o. Nonetheless, due to the contractual provisions, Asseco Poland S.A. will not exercise control over Nextbank Software Sp. z o.o. as understood by IFRS 10, because Asseco Poland S.A. cannot change the composition of the management board in that company for at least 4 years.

- ***Commencement of the liquidation process of Gladstone Consulting Ltd.***

The process of winding-up the company of Gladstone Consulting Ltd. (a 100% owned subsidiary of Asseco Poland S.A.) was initiated on 8 March 2019. All the business activities (the integrated set of activities and assets as defined by IFRS 3) that used to be performed by Gladstone Consulting Ltd. based in Cyprus, have been taken over by GSTN Consulting Sp. z o.o. This change was intended to transfer all the said business activities to the Poland-based company.

- ***Acquisition of shares in ComCERT S.A.***

On 20 May 2019, Asseco Poland S.A. acquired 69.01% of shares in ComCERT S.A. Moreover, on the same day a conditional agreement was signed under which Asseco Poland S.A. shall purchase the remaining 30.99% of shares in ComCERT S.A. once the condition specified in this agreement is satisfied by the seller within the deadline of 30 June 2021. As a result of this transaction, the newly acquired company ComCERT S.A. has become a subsidiary of Asseco Poland S.A.

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5.5. Impairment testing of assets

Selected accounting policies

At each reporting date, the Company 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 Company 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. The 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 Company 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 Company 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 Company 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. Such a charge increases the Company's financial expenses. 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.

Both as at 31 December 2019 and during the period of 12 months ended 31 December 2019, the stock market capitalization of Asseco Poland S.A. remained under the book value of the Company's net assets (the so called "low capitalization"). The Company's Management considered such situation as an indication of possible impairment of the Company's assets.

In order to analyze the indications of possible impairment, the Company's assets were divided into two groups:

1. assets employed in operating activities. These assets include among others goodwill, intangible assets as well as working capital of the Company;
2. assets related to investing activities, representing mainly financial assets and equity investments in subsidiaries and associates.

Ref. 1 Assets employed in operating activities

As described above, goodwill arising from business combinations has been allocated to the Company's operating segments. The value of individual cash-generating units has been subsequently increased by net operating assets, which are used by such units to generate cash flows.

Concurrently, for the purpose of analyzing impairment of the Public Administration segment, we have added the results as well as goodwill and net operating assets of our subsidiaries SKG S.A. and ComCERT S.A. We believe that these companies, due to their client portfolio and the same managers, constitute one cash-generating unit together with the aforementioned operating segment. A similar approach has been applied to the company GSTN Consulting, which was included in the Banking and Finance segment for the impairment analysis.

Each of the identified cash-generating units was tested for impairment by estimating the value in use of a given unit/segment.

The key assumptions adopted in the calculation of the recoverable amount:

- The recoverable amount of cash-generating units was estimated as their value in use, by applying the model of discounted cash flows which had been forecasted in the financial budgets for 2020 as approved by the Management Board and Supervisory Board.
- Detailed forecasts covered the period of 5 years with an assumed increase in cash flows, while the residual value for later operations was computed assuming no growth in cash flows.
- The assumed increases in cash flows depend upon the strategy of the entire Company and tactical plans of individual entities, taking due account of conditions prevailing in particular markets, 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. In addition, due to the fact that both in the Public Administration segment and in the General Business segment, the execution of budgets and forecasts largely depends on gaining several major contracts with the Company's key clients in the future which will have a significant share in the planned revenues and margins, it should be noted that the forecasts for testing adopted the scenario of continuing cooperation with these clients in the long term and acquiring such significant contracts.
- The discount rate applied to determine the present value of expected future cash flows was equivalent to the Company's estimated weighted average cost of capital. Particular components of the discount rate were determined taking into account the market values of risk-free interest rates, the beta coefficient (deleveraged β of 0.92 was adopted that was subsequently leveraged to reflect the average market debt/equity ratio) as well as the expected market yield.

The average rates of growth in free cash flows as well as the weighted average cost of capital are presented for each individual segment in the table below.

The conducted impairment tests, which involved the estimation of the value in use by applying the model of discounted free cash flow to firm (FCFF), indicated that the value in use of our cash-generating units is higher than their carrying value.

Analysis of sensitivity

Additionally, the Company carried out a sensitivity analysis in relation to the conducted impairment test. Such sensitivity analysis examined the impact of changes in:

- discount rate applied for the residual period, i.e. for cash flows generated after 2024;
- compound annual growth rate of free cash flows (FCFF) over the period of forecast, i.e. in the years 2020-2024;

as factors with influence on the recoverable amount of a cash-generating unit, assuming other factors remain unchanged.

The objective of such sensitivity analysis was to find out the terminal values showing how much the selected parameters applied in the model could be changed so that the estimated value in use of each cash-generating unit equalled its carrying value. The results of the conducted analysis are presented in the table below:

	Carrying value of cash-generating unit*	Discount rate for the residual period		Compound annual growth rate of free cash flows (FCFF)	
	mPLN	applied in the model %	incremental %	applied in the model %	incremental %
Banking and Finance segment	2,557.5	7.46%	8.26%	32.2%	31.19%**
Public Administration segment	1,920.3	7.46%	9.26%	21.4%	18.30%**
General Business segment	498.3	7.46%	14.11%	12.96%	4.3%

** The carrying value of a cash-generating unit represents the recognized net assets and goodwill allocated to the segment (hence this value does not include net debt/cash position)*
*** Both the values of 31.19% and 18.3% are largely the result of planned capital expenditures to be made primarily during 2020, which will significantly affect the compound rate of change in cash flows.*

At the same time, we notify that in the forecasts for the years 2020-2024, we assumed that the Public Administration segment and the General Business segment will gain several major contracts with their key clients which will have a significant share in the planned revenues; any termination of such cooperation or loss of such contracts would have a material impact on the test results.

As shown in the table above, the discount rate applied in the analysis model for the Banking and Finance segment equalled 7.5%. Whereas, the compound annual growth rate of cash flows for the period from 2020 to 2024 as applied in the model for this segment equalled 32.2%. The values of analogical parameters (i.e. WACC and CAGR) applied in the model for the Public Administration segment equalled 7.5% and 21.4%, respectively. For the General Business segment we applied the same value of WACC as for other segments, while the adopted compound annual growth rate of free cash flows equalled 13.0%.

In addition, the table below presents the analysis of sensitivity of our models for the calculation of the recoverable amounts of cash-generating units, to changes in discount rates (the applied discount rate was changed in the range from 0.5 pp to 1.5 pp in plus and in minus), as well as to percentage changes in the expected free cash flows (the amount of FCFF was changed by 1%, 3% and 5% in plus and in minus).

Banking and Finance segment	Change in discount rate for the residual period (in percentage points)						
	-1.5 pp	-1.0 pp	-0.5 pp	0.0 pp	+0.5 pp	+1.0 pp	+1.5 pp
Present value of FCFF (in millions of PLN)	2,923.7	2,821.9	2,734.7	2,659.2	2,593.1	2,534.9	2,483.2
Excess/deficit against the unit's book value (in millions of PLN)	366.1	264.3	177.1	101.6	35.6	(22.6)	(74.3)

Banking and Finance segment	Change in the value of FCFF in the years 2020-2024 (in percentage)						
	-5%	-3%	-1%	0%	+1%	+3%	+5%
Present value of FCFF (in millions of PLN)	2,589.9	2,617.6	2,645.3	2,659.2	2,673.0	2,700.7	2,728.5
Excess/deficit against the unit's book value (in millions of PLN)	32.4	60.1	87.8	101.6	115.5	143.2	170.9

Public Administration segment	Change in discount rate for the residual period (in percentage points)						
	-1.5 pp	-1.0 pp	-0.5 pp	0.0 pp	+0.5 pp	+1.0 pp	+1.5 pp
Present value of FCFF (in millions of PLN)	2,329.9	2,240.9	2,164.7	2,098.7	2,041.0	1,990.2	1,944.9
Excess/deficit against the unit's book value (in millions of PLN)	409.6	320.6	244.4	178.4	120.7	69.8	24.6

Public Administration segment	Change in the value of FCFF in the years 2020-2024 (in percentage)						
	-5%	-3%	-1%	0%	+1%	+3%	+5%
Present value of FCFF (in millions of PLN)	2,033.7	2,059.7	2,085.7	2,098.7	2,111.7	2,137.7	2,163.7
Excess/deficit against the unit's book value (in millions of PLN)	113.4	139.4	165.4	178.4	191.4	217.4	243.4

General Business segment	Change in discount rate for the residual period (in percentage points)						
	-1.5 pp	-1.0 pp	-0.5 pp	0.0 pp	+0.5 pp	+1.0 pp	+1.5 pp
Present value of FCFF (in millions of PLN)	674.7	651.0	630.8	613.3	597.9	584.4	572.4
Excess/deficit against the unit's book value (in millions of PLN)	176.4	152.8	132.5	115.0	99.7	86.1	74.1

General Business segment	Change in the value of FCFF in the years 2020-2024 (in percentage)						
	-5%	-3%	-1%	0%	+1%	+3%	+5%
Present value of FCFF (in millions of PLN)	595.1	602.4	609.6	613.3	616.9	624.1	631.4
Excess/deficit against the unit's book value (in millions of PLN)	96.8	104.1	111.4	115.0	118.6	125.9	133.1

As indicated in the table above, for the Banking and Finance segment identified as a cash-generating unit in the Company, the discount rate applied in the analysis model equalled 7.5%. Whereas, the compound annual growth rate of cash flows for the period from 2020 to 2024 as applied in the model for this segment equalled 32.2%. The values of analogical parameters (i.e. WACC and CAGR) applied in the model for the Public Administration segment equalled 7.5% and 21.4%, respectively. For the General Business segment we applied the same value of WACC as for other segments, while the adopted compound annual growth rate of free cash flows equalled 13.0%.

Ref. 2 Assets related to investing activities

Each impairment test on investments in subsidiaries requires making estimates of the recoverable amount of a cash-generating unit or a group of cash-generating units constituted by individual subsidiaries.

In the case of cash-generating units constituted by companies quoted in an active market, the recoverable amount may equal the market value (i.e. stock market capitalization) of a company or its value in use, whichever is higher. Therefore, for cash-generating units constituted by companies quoted in an active market, impairment testing was performed in two stages. First of all, the book value of an investment in a company was compared to its market value (stock market capitalization). If the market value exceeded the book value, the investment was deemed not to have been impaired. Otherwise, the value in use of such investment in a company was estimated by applying the model of discounted free cash flow to firm (FCFF).

The table below compares the market values of our capital investments against their book values as at 31 December 2019 as well as at the date of the last annual impairment test, this is as at 31 December 2018:

	Formula Systems (1985), Ltd.	Asseco South Eastern Europe S.A.	Asseco Business Solutions S.A.
31 Dec. 2019			
book value	242.6	268.8*	69.0*
market capitalization	1,012.1	602.4	432.3
excess (+) / deficit (-) of fair value over book value	**769.5**	**333.6**	**363.3**
31 Dec. 2018			
book value	242.6	268.8*	69.0*
market capitalization	558.8	298.8	383.8
excess (+) / deficit (-) of fair value over book value	**316.2**	**30.0**	**314.8**

** As at 31 December 2019, the investments in Asseco South Eastern Europe S.A. and in Asseco Business Solutions S.A. both constituted investments in indirect subsidiaries of Asseco Poland S.A. This means that the values of investments in these companies are presented as part of Asseco Poland's investment in Asseco International that maintains direct control over the above-mentioned companies.*

In the case of investments in companies not quoted in an active market, the recoverable amount was determined as their value in use by applying the model of discounted free cash flow to firm (FCFF).

As at 31 December 2019, we estimated the value in use of investments in companies not quoted in an active market.

In the calculation of the value in use of cash-generating units, which are constituted by individual subsidiaries, the following assumptions have been adopted:

- for each subsidiary, the so-called business units were analyzed which, when put together, comprise the budget and forecasts of the whole subsidiary company;
- detailed forecasts covered the period of 5 years with an assumed increase in cash flows, while the residual value for later operations of each subsidiary was computed assuming no growth in cash flows;
- the assumed increases in cash flows depend upon the strategy of the entire Company and tactical 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 forecasts for foreign subsidiaries assumed growth of sales in their functional currencies;
- the discount rates applied were equivalent to the weighted average cost of capital for particular companies. Particular components of the discount rate were determined taking into account

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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.

The conducted impairment tests, which involved the estimation of the value in use by applying the model of discounted free cash flow to firm (FCFF), indicated that the value in use of our investments is higher than their carrying value.

Analysis of sensitivity

Additionally, the Company carried out a sensitivity analysis in relation to the impairment test performed for our investing activity assets. Such sensitivity analysis examined the impact of changes in:

a. discount rate applied for the residual period, i.e. for cash flows generated after 2024;

b. compound annual growth rate of free cash flows over the period of forecast, i.e. in the years 2020-2024;

as factors with influence on the recoverable amount of a cash-generating unit, assuming other factors remain unchanged.

The objective of such sensitivity analysis was to find out how much the selected parameters applied in the model could be changed so that the estimated value in use of each cash-generating unit equalled its carrying value. The results of the conducted analysis are presented in the table below:

	Book value of investment	Discount rate for the residual period		Incremental annual growth rate of free cash flows (FCFF)
		applied in the model	incremental	
Investments in non-listed companies				
Asseco Spain S.A.*	77.3	7.6%	29.3%	(13.0%)
Asseco PST (former Exictos) *	103.4	7.5%	∞	(35.4%)
Asseco Data Systems S.A.	414.6	8.4%	18.9%	(7.0%)
DahliaMatic Sp. z o.o.	73.6	11.0%	14.5%	(4.7%)
Asseco Danmark & Peak Consulting*	37.6	8.7%	23.4%	0.5%
Sintagma UAB and Asseco Lietuva UAB*	6.6	9.3%	∞	∞
ZUI Novum Sp. z o.o.	3.9	11.0%	∞	∞
Eversoft Poland Sp. z o.o.	0.5	11.0%	∞	(22.2%)
Asseco Central Europe a.s.*	542.8	5.6%	∞	(58.4%)

∞ means that the incremental discount rate for the residual period is greater than 100%.

** As at 31 December 2019, the investments in Asseco Spain S.A. (a direct subsidiary of Asseco Western Europe S.A.), Asseco PST, Asseco Danmark, Peak Consulting, Sintagma UAB, Asseco Lietuva UAB and Asseco Central Europe constituted investments in indirect subsidiaries of Asseco Poland S.A. This means that the values of investments in these companies are presented as part of Asseco Poland's investment in Asseco International that maintains direct control over the above-mentioned companies.*

The conducted impairment tests did not indicate a necessity to recognize any impairment charges on our investments in subsidiaries as at 31 December 2019.

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5.6. 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.*

Assets from contracts with customers result from the excess of the percentage of completion of implementation contracts over invoices issued. In the case of such assets, the Company 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.

***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.*

***Receivables from uninvoiced deliveries** arise from the supply of services which were performed during the reporting period (the Company has completed its performance obligation), but have not been invoiced until the end of the reporting period. However, if as at the reporting date the Company deems it has an unconditional right to payment for its performance, the respective amounts are classified as receivables.*

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 Company 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 Company 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 Company 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 Company 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 Company 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.

The Company 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 balances of trade receivables as at 31 December 2019 and as at 31 December 2018, in a breakdown to receivables from subsidiaries, associates and other related parties.

	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	mPLN	*mPLN*	*mPLN*	*mPLN*
Trade receivables	**1.4**	**186.0**	**1.8**	**191.3**
From related parties, of which:	**-**	**15.1**	**-**	**7.8**
Invoiced receivables	-	3.0	-	4.1
from subsidiaries	-	*0.4*	-	*2.9*
from associates	-	*0.9*	-	*0.7*
from other related parties	-	*1.7*	-	*0.5*
Uninvoiced receivables	-	12.1	-	3.7
from subsidiaries	-	*5.1*	-	*3.4*
from associates	-	*0.3*	-	*0.3*
from other related parties	-	*6.7*	-	-
From other entities, of which:	**1.4**	**170.9**	**1.8**	**183.5**
Invoiced receivables	-	98.9	-	124.7
Uninvoiced receivables	1.4	72.0	1.8	58.8
Allowance for doubtful receivables (-)	**-**	**(15.1)**	**-**	**(17.6)**
Total trade receivables	**1.4**	**170.9**	**1.8**	**173.7**

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

	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	mPLN	*mPLN*	*mPLN*	*mPLN*
Contract assets				
from related parties, of which:	**-**	**1.4**	**-**	**6.5**
Contract assets	-	1.4	-	6.5
from subsidiaries	-	*1.1*	-	*5.0*
from associates	-	*0.3*	-	*1.5*
from other entities	**-**	**48.7**	**-**	**115.9**
Contract assets	-	48.7	-	115.9
Total contract assets	**-**	**50.1**	**-**	**122.4**

Assets from contracts with customers result from the excess of the percentage of completion of implementation contracts over invoices issued.

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

	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Contract assets as at 1 January	***122.4***	***144.1***
Reclassified to receivables	(151.1)	(165.6)
Fulfilment of new uninvoiced performance obligations, changes in estimated transaction prices, modification of other assumptions	78.8	143.9
Contract assets at the end of the period	**50.1**	**122.4**

The table below presents changes in allowances for trade receivables and contract assets during the period of 12 months ended 31 December 2019 and in the comparable period of the previous year.

	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Balance as at 1 January	**(17.6)**	**(20.9)**
Created (+)	(0.7)	(6.6)
Reversed / utilized (-)	3.1	9.9
Reclassified from other receivables	0.1	-
Balance as at 31 December	**(15.1)**	**(17.6)**

Related party transactions have been presented in explanatory note 5.20 to these financial statements.

The Company's policy is to sell its products and services to reliable clients. Owing to that, in the Management's opinion the credited sales risk would not exceed the level covered with allowances for doubtful trade 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	
Ageing of trade receivables	*mPLN*	%	*mPLN*	%
Receivables not yet due	**150.9**	**63.5%**	**147.7**	**46.8%**
Past-due receivables	**26.5**	**11.2%**	**34.4**	**10.9%**
Receivables past-due up to 3 months	12.0	5.1%	11.0	3.5%
Receivables past-due from 3 to 6 months	2.2	0.9%	5.8	1.8%
Receivables past-due from 6 to 12 months	1.6	0.7%	13.2	4.2%
Receivables past-due over 12 months	10.7	4.5%	4.4	1.4%
	177.4	**74.7%**	**182.1**	**57.7%**
Trade receivables in court litigation	**10.0**	**4.2%**	**11.0**	**3.5%**
Ageing of contract assets				
Contract assets				
Not yet due	**50.1**	**21.1%**	**122.4**	**38.8%**
Total	**237.5**	**100%**	**315.5**	**100%**

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The table below presents other receivables as at 31 December 2019 and as at 31 December 2018:

Other receivables	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	mPLN	*mPLN*	*mPLN*	*mPLN*
Receivables from dividends	-	18.5	-	15.3
Receivables from disposal of property, plant and equipment	0.8	-	0.9	0.2
Receivables from disposal of financial instruments or capital investments	64.4	8.2	73.2	8.8
Receivables from security deposits paid-in	3.0	5.4	6.8	2.6
Receivables in court litigation	-	0.8	-	0.8
Other receivables	-	1.0	-	1.1
Allowances for other doubtful receivables (-)	-	(12.8)	-	(11.4)
Total other receivables	**68.2**	**21.1**	**80.9**	**17.4**

The table below presents changes in allowances for other receivables during the period of 12 months ended 31 December 2019 and in the comparable period of the previous year.

	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Balance as at 1 January	**(11.4)**	**(12.3)**
Created (+)	(0.1)	(0.6)
Reversed / utilized (-)	-	1.5
Foreign currency translation differences (+)/(-)	(1.3)	-
Balance as at 31 December	**(12.8)**	**(11.4)**

‘Receivables from disposal of financial instruments or capital investments’ include primarily receivables from the sale of shares in the companies: Formula Systems (1985) Ltd. in the amount of PLN 36.6 million, Asseco Central Europe – PLN 16.4 million, and Asseco South Eastern Europe – PLN 19.6 million.

Allowances for other doubtful receivables include mainly the allowance for dividends receivable from R-Style Softlab JSC in the amount of PLN 11.7 million.

5.7. 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 Company 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 Company.

Costs of contracts with customers

The costs of obtaining a contract are those additional (incremental) costs incurred by the Company in order to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The Company 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 Company satisfies the performance obligations arising from the contract.

As a practical expedient, the Company recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Company 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 Company 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:

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- *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.*

Costs capitalized in the statement of financial position are subsequently recognized in the income statement, basically as the cost of sales.

As at 31 December 2019 and in the comparable period, prepayments and accrued income included the following items:

	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	mPLN	*mPLN*	*mPLN*	*mPLN*
Prepaid services, of which:	**13.9**	**20.8**	**5.9**	**14.2**
maintenance services and license fees	*12.2*	*13.9*	*5.4*	*9.7*
rents and averaging of instalments under operating leases	-	*0.3*	-	*1.2*
insurances	*0.1*	*0.5*	-	*0.5*
other services	*1.6*	*6.1*	*0.5*	*2.8*
Expenses related to services performed for which revenues have not been recognized yet	-	17.5	0.1	1.4
Costs of contracts with customers	-	*17.5*	*0.1*	*1.4*
Other prepayments and accrued income	0.2	0.5		0.5
Total	**14.1**	**38.8**	**6.0**	**16.1**

Both as at 31 December 2019 and at the end of the comparable period, prepayments included primarily the costs of maintenance services and license fees that will be successively expensed in future periods.

5.8. Other assets

Selected accounting policies

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

At initial recognition, the Company 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 Company'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 Company may increase their fair value by transaction costs directly attributable to their acquisition.

Measurement after initial recognition

<u>Measurement of financial assets at amortized cost</u>

A financial asset shall be measured at amortized cost if both of the following conditions are met: (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows 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 Company 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.

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

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

On disposal of investments in debt securities, the Company 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 Company 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 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 Company 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 Company 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 Company applies the following approaches:

- *general approach,*
- *simplified approach.*

The Company 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 trade receivables and contract assets.

Under the general approach, the Company 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 Company 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 Company estimates an allowance for expected credit losses over the lifetime of financial instruments.

At each reporting date, the Company 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 Company 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.

Estimates

As required by IFRS 9 'Financial Instruments', the Company classifies and measures loans granted at each reporting date, as well as estimates the amount of impairment losses. Derivative financial instruments are measured at fair value at each reporting date.

i. Other financial assets

As at 31 December 2019, the Company held the categories and classes of financial assets listed in the table below (in addition to contract assets, trade receivables and cash and cash equivalents which are presented in explanatory notes 5.6 and 5.10 to these financial statements).

	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	mPLN	*mPLN*	*mPLN*	*mPLN*
Financial assets carried at amortized cost, of which:	**16.7**	**0.5**	**18.3**	**1.2**
Loans granted to related parties	15.8	0.1	18.0	0.2
Loans granted to employees	0.9	0.4	0.3	1.0
Financial assets carried at fair value through profit or loss, of which:	**2.8**	**1.2**	**1.9**	**0.2**
currency forward contracts	2.0	1.2	1.1	0.2
Shares in companies quoted in an active market (except for subsidiaries and associates)	0.8	-	0.8	-
Financial assets carried at fair value through other comprehensive income, of which:	**8.8**	**-**	**26.2**	**-**
Shares in non-listed companies (except for subsidiaries and associates)	8.8	-	26.2	-
Total	**28.3**	**1.7**	**46.4**	**1.4**

Loans granted, which meet the characteristics of contractual cash flows (under the SPPI test), are measured at amortized cost at each reporting date. Loans to related parties were granted on an arm's length basis.

Loans granted to related parties

Loans granted to related parties include only loans granted to companies which are controlled by Asseco Poland S.A. The balance of loans granted as at 31 December 2019 includes just loans that were granted by the Company to its subsidiaries, namely Podkarpacki Fundusz Nieruchomości Sp. z o.o. and Eversoft Poland Sp. z o.o. Apart from loans disclosed as at 31 December 2019, Asseco Poland S.A. also granted loans to its controlled entities: Gdyński Klub Koszykówki Arka S.A. and Asseco Resovia S.A. However, these loans were written down entirely in 2017, as a result of which their balances equalled null as at 31 December 2019.

Financial assets carried at fair value through profit or loss include forward transactions for the purchase or sale of foreign currencies, and investments in equity instruments quoted in an active market. Such forward transactions have been concluded in order to hedge against our foreign currency risk resulting from trade contracts, finance leases of real estate, as well as from other contracts.

The fair values of currency forward contracts and embedded derivatives are determined at each reporting date using calculation models based on inputs that are directly observable in active markets. Whereas, the fair value of the portfolio of financial assets is determined on the basis of quoted prices for such assets in active markets. Investments in companies quoted in an active market, which are not under the Company's control or significant influence, are measured at fair value at each reporting date, on the basis of their closing prices at the end of the reporting period. Valuation changes are recognized through profit or loss in the income statement.

Financial assets carried at fair value through other comprehensive income include primarily investments in equity instruments not quoted in an active market. As at 31 December 2019, these assets comprised mainly shares held in Bank Polskiej Spółdzielczości S.A. The balance of such assets changed because the conditions of the purchase agreement of Nextbank Software Sp. z o.o. were met in 2019, as a result of which our equity interest in this company has been reclassified to subsidiaries and associates.

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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 Company did not change its methods for measuring the fair value of financial instruments carried at fair value, did not transfer any instruments between individual levels of the fair value hierarchy, nor did it reclassify any financial instruments.

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	Level 1 i)	Level 2 ii)	Level 3 iii)
	mPLN	*mPLN*	*mPLN*	*mPLN*
Financial assets carried at fair value through profit or loss				
Currency forward contracts	3.2	-	3.2	-
Shares in companies listed on regulated markets	0.8	0.8	-	-
Total	**4.0**	**0.8**	**3.2**	**-**
Financial assets carried at fair value through other comprehensive income				
Shares in companies not listed on regulated markets	8.8	-	-	8.8
Total	**8.8**	**-**	**-**	**8.8**

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	Level 1 i)	Level 2 ii)	Level 3 iii)
	mPLN	*mPLN*	*mPLN*	*mPLN*
Financial assets carried at fair value through profit or loss				
Currency forward contracts	1.3	-	1.3	-
Shares in companies listed on regulated markets	0.8	0.8	-	-
Total	**2.1**	**0.8**	**1.3**	**-**
Financial assets carried at fair value through other comprehensive income				
Shares in companies not listed on regulated markets	26.2	-	-	26.2
Total	**26.2**	**-**	**-**	**26.2**

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

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ii. Non-financial assets

The balance of other assets as at 31 December 2019 and as at 31 December 2018 comprised:

	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
Trade advance payments	0.9	1.6

5.9. Inventories

Selected accounting policies

Inventories are measured by the Company at the lower of the following two values: purchase cost/production cost or net value realizable upon sale.
The Company 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).
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 Company 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 category of goods for resale includes mainly computer hardware and third-party software licenses intended for resale under the implementation or supply contracts. Hence, majority of goods for resale are purchased for the purpose of execution of already signed or highly probable contracts.

	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
Computer hardware, third-party software licenses and other goods for resale	8.4	2.5
Computer hardware, spare parts and other materials intended for the performance of repair/maintenance services	0.7	0.9
Impairment loss (-)	(1.0)	(0.8)
Total	**8.1**	**2.6**

5.10. Cash and bank deposits

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 statement of cash flows consists of the above-defined cash and cash equivalents. For the purposes of the statement of cash flows, the Company decided not to include bank overdraft facilities (used as an element of financing) in the balance of cash and cash equivalents.

	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
Cash at bank accounts	80.1	33.6
Cash at split payment accounts	4.4	0.6
Short-term bank deposits	84.2	230.5
Total cash and cash equivalents as disclosed in the balance sheet	**168.7**	**264.7**
Bank overdraft facilities utilized for current liquidity management	-	-
Total cash and cash equivalents as disclosed in the cash flow statement	**168.7**	**264.7**

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Interest earned on cash at bank is variable and depends on interest rates offered on bank deposits. Short-term deposits are made for varying periods of between one day and three months and earn interest at their respective fixed interest rates.

5.11. Assets and liabilities of the Company Social Benefits Fund

Selected accounting policies

The Social Benefits Fund Act of 4 March 1994 (with subsequent amendments) requires the employers that employ more than 50 full-time employees to establish and operate a social benefits fund. The purpose of the social benefits fund is to finance social activities, loans to employees, as well as other social expenditures. Contributions made to the Company Social Benefits Fund during a year are expensed in the period to which they are related. The Company has offset the fund assets against its liabilities towards the fund, because such assets do not qualify as the Company's assets.

The assets, liabilities and costs of the social benefits fund are presented in the table below.

	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
Cash and cash equivalents	0.7	0.9
Liabilities of the Fund	(0.6)	(0.8)
Balance after netting off	**0.1**	**0.1**
Amounts contributed to the Fund in the reporting period	**(0.8)**	**(0.8)**

5.12. Share capital and other components of equity

<u>*Share capital*</u>

The Company's share capital as at 31 December 2019 and in the comparable period amounted to PLN 83,000,303 and has been fully paid up. The share capital is divided into 83,000,303 ordinary shares with a par value of PLN 1 each. The Company has not issued any preference shares.

During the year ended 31 December 2019, our share capital remained unchanged in relation to its amount of 31 December 2018. The Company's authorized capital is equal to its share capital.

<u>*Reserve capital*</u>

The reserve capital was established in accordance with the Commercial Companies Code (CCC), from the premium of issuance price over the par value on shares (less the share issuance-related expenses) as well as from prior years' profits that have been appropriated to reserve capital by the Company's General Meeting of Shareholders. The remaining portion of reserve capital is presented as retained earnings and is related to the accounting for prior years' profits in compliance with the CCC.

In order to demonstrate the Company's ability to pay out dividends, the table below presents the components and total amount of the Company's reserve capital as at 31 December 2019 and 31 December 2018.

	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
Share premium	4,180.1	4,180.1
Retained earnings appropriated to reserve capital by the General Meeting of Shareholders	1,129.1	1,217.3
Result on settlement of transactions in treasury shares	(734.0)	(734.0)
	4,575.2	**4,663.4**

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Dividend capacity

In accordance with the Commercial Companies Code, the Company is required to create a reserve capital in order to be able to cover its losses. At least 8% of the net profit reported for each financial year must be appropriated to such reserve capital until the amount thereof reaches at least one-third of the Company's share capital. Because the value of reserve capital exceeded one-third of the Company's share capital, our statutory obligation to pay in additional amounts from net profits to the reserve capital has expired. The General Meeting may decide on how the Company's reserve capital, including capital reserves, shall be used. Furthermore, as described in the accounting policy above, capitals arising from business combinations do not increase the amount of reserve capital and therefore cannot be distributed in the future.

In conclusion, it should be noted that the dividend capacity of Asseco Poland S.A. as at 31 December 2019 is equal to the amount of prior years' profits that have been appropriated to the reserve capital pursuant to resolutions of the General Meeting of Shareholders plus the current net profit, but assuming that any negative results from the settlement of treasury shares transactions will be covered from the share premium. The share premium (excess of the issuance price over the par value on shares) can only be used to cover potential losses disclosed in the financial statements and therefore it does not increase the Company's capacity to pay out dividends. Moreover, the amount of reserve capital that equals one-third of the share capital cannot be distributed to shareholders. As at 31 December 2019, there were no other restrictions as regards the payment of dividends.

5.13. Bank loans and debt securities issued

Selected accounting policies

The Company 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 Company at amortized cost include: bank loans, borrowings and debt securities. Other financial liabilities are measured by the Company 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, borrowings and debt securities are initially recognized at their purchase cost, representing the fair value of cash received net of any transaction costs directly attributable to obtaining a bank loan or issuing debt securities.

Subsequently to initial recognition, bank loans, borrowings as well as debt securities 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, or issuing debt securities, as well as any discounts or bonuses received upon repayment of the liability.

A financial liability is removed by the Company 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.

	Maximum debt limit available	Effective interest rate %	Repayment date	31 Dec. 2019		31 Dec. 2018	
				Long-term	Short-term	Long-term	Short-term
Bank overdraft facilities				-	-	-	-
Bank overdraft facility	150.0	1M WIBOR + margin	2020-06-30	-	-	-	-
Bank overdraft facility	200.0	1M WIBOR + margin	2020-07-31	-	-	-	-
Bank overdraft facility	150.0	1M WIBOR + margin	2020-08-31	-	-	-	-
Bank overdraft facility	70.0	1M WIBOR + margin	2020-04-02	-	-	-	-
Investment loans				-	-	**38.8**	**13.1**
Investment loan	n/a	3M WIBOR + margin	2022-11-18*	-	-	19.4	6.6
Investment loan	n/a	3M WIBOR + margin	2022-11-18*	-	-	19.4	6.5
Borrowings	n/a	fixed interest rate	2019-12-25	-	-	-	2.1
TOTAL				-	-	**38.8**	**15.2**

** The investment loan was repaid during the first half of 2019*

As at 31 December 2019 and 31 December 2018, total funds available to the Company under bank account overdraft facilities amounted to PLN 570 million. Both as at 31 December 2019 and in the comparable period, we had no liabilities outstanding under such bank overdrafts.

On 13 March 2019, the Company terminated two investment loan agreements concluded on 20 September 2010 and on 29 May 2013 and, at the same time, informed about its intention to make an early repayment of both the loans along with all interest due. As at the date of publication of these interim condensed financial statements, the Company has no debt under any investment loans.
Both as at 31 December 2019 and in the comparable period, no other assets served as collateral for any bank loans and borrowings.

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

5.14. Lease liabilities

Selected accounting policies

In accordance with IFRS 16, 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 right to control the use is transferred under a contract if the lessee has both of the following:

- the right to obtain substantially all of the economic benefits from use of the identified asset; and
- the right to direct the use of the identified asset.

Lease liabilities – initial recognition

At the lease commencement date, the Company measures the lease liability at the present value of lease payments outstanding at that date. The lease payments are discounted by the Company 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 Company is reasonably certain to exercise that option); and payments of penalties for terminating the lease (if the Company 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

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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 Company using the lessee's incremental borrowing rate, which constitutes the sum of the risk-free interest rate (being determined by the Company based on the quotations of relevant IRS derivatives or interest rates on government bonds for relevant currencies) and the credit risk premium for the Company (being quantified on the basis of margins offered to the Company on investment loans adequately secured with assets).*

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.

Lease term for contracts with an option to extend the lease

The Company determines the lease term as the non-cancellable period of the lease, including periods covered by an option to extend the lease if it is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if it is reasonably certain not to exercise that option.

Under some lease contracts, the Company has an option to extend the duration of the lease of assets. The Company makes judgements in assessing whether there is reasonable certainty that the option to extend the lease will be exercised. This means it considers all relevant facts and circumstances that create an economic incentive for extending the lease, or an economic penalty for not extending the lease. After the commencement date, the Company shall revise the lease term if there is a significant event or a change in circumstances under its control that affects its ability to exercise (or not to exercise) the option to extend the lease (e.g. a change in business strategy).

Lease term for contracts for an indefinite period

The Company has lease contracts concluded for an indefinite period, as well as contracts that have evolved into contracts for an indefinite period under which both parties have the option to terminate the lease. In determining the lease term, the Company determines the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. The Company assesses the significance of broadly understood penalties, i.e. apart from strictly contractual or financial matters, it considers all other significant economic factors discouraging the termination of the contract (e.g. significant investments in the underlying asset, availability of alternative solutions, relocation costs). If neither the Company acting as the lessee nor the lessor incurs a significant (broadly understood) penalty for terminating the contract, then the lease ceases to be enforceable and the lease term is limited to the period of termination notice. However, in a situation where any of the parties, according to professional judgment, incurs a significant (broadly understood) penalty for terminating the contract, the Company shall determine the lease term as the period over which it is reasonably certain the lease will be continued.

Lessee's incremental borrowing rate

The Company is not able to readily determine the interest rate implicit in lease contracts, and therefore in measuring the lease liability it uses the lessee's incremental borrowing rate. This is the rate of interest that the Company would have to pay to borrow over a similar term, in the same currency and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Company as a lessor

Accounting by lessors under IFRS 16 remained substantially unchanged from the previous approach required by IAS 17. Lessors continue to recognize all lease agreements according to the same classification criteria as used in prior years, distinguishing between operating leases and finance leases.

Estimates

In order to adopt and apply IFRS 16, the Company was required to make miscellaneous estimates and exercise professional judgment. This concerned mainly the assessment of the lease term in contracts concluded for an indefinite period as well as in contracts providing the Company with an option to extend the lease. In determining the lease term, the Company had to consider all relevant facts and circumstances that create an economic incentive to exercise or not to exercise the option to extend the lease or the option to terminate the lease. When determining the lease term, the Company also took into account the amount of expenditures incurred to adapt the leased asset to individual needs, and in the case of real estate leases – size of the market in a given location and the specific features of rented property.

As at 31 December 2019, assets used under lease contracts where the Company is a lessee, included:

- real estate,
- IT hardware.

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 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, as well as liabilities arising from contracts for perpetual usufruct of land that also meet the definition of a lease under IFRS 16.

	31 Dec. 2019 (IFRS 16)		31 Dec. 2018 (IAS 17)	
	Long-term	Short-term	Long-term	Short-term
	mPLN	*mPLN*	*mPLN*	*mPLN*
Leases of real estate	54.3	26.8	20.4	22.9
Leases of IT hardware	0.7	0.8	1.4	0.7
Total	**55.0**	**27.6**	**21.8**	**23.6**

Leases of real estate

The net value of properties held under lease contracts amounted to PLN 85.5 million as at 31 December 2019, as compared with PLN 13.4 million as at 31 December 2018.

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

	31 Dec. 2019	31 Dec. 2018
	mPLN	*mPLN*
Minimum lease payments		
in the period shorter than 1 year	29.6	24.8
in the period from 1 to 5 years	26.7	20.9
in the period longer than 5 years	102.1	-
Future minimum lease payments	**158.4**	**45.7**
Future interest expenses	**77.4**	**2.4**
Present value of lease liabilities		
in the period shorter than 1 year	26.8	22.9
in the period from 1 to 5 years	19.6	20.4
in the period longer than 5 years	34.6	-
Lease liabilities	**81.0**	**43.3**

The effective interest rate on such leases equalled 4.3% as at 31 December 2019, as compared with 5.8 % as at 31 December 2018.

Leases of IT hardware

As at 31 December 2019, the net value of IT hardware held under lease contracts equalled to PLN 1.5 million. As at 31 December 2018, the net value of IT hardware held under lease contracts equalled to PLN 2.1 million. The aggregate future cash flows and liabilities under such finance leases of equipment are as follows:

	31 Dec. 2019	31 Dec. 2018
	mPLN	*mPLN*
Minimum lease payments		
in the period shorter than 1 year	0.8	0.7
in the period from 1 to 5 years	0.7	1.4
in the period longer than 5 years	-	-

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Other financial liabilities	31 Dec. 2019 Long-term *mPLN*	Short-term *mPLN*	31 Dec. 2018 Long-term *mPLN*	Short-term *mPLN*
Liabilities from the acquisition of shares	2.2	0.5	1.9	-
Liabilities from currency forward contracts	3.8	0.2	0.3	1.0
Total	**6.0**	**0.7**	**2.2**	**1.0**

Future minimum lease payments	**1.5**	**2.1**
Future interest expenses	-	-
Present value of lease liabilities		
in the period shorter than 1 year	0.8	0.7
in the period from 1 to 5 years	0.7	1.4
in the period longer than 5 years	-	-
Lease liabilities	**1.5**	**2.1**

As at 31 December 2019, the effective interest rate on such leases equalled 5% and it remained unchanged from the level observed as at 31 December 2018.

The table below presents the amounts of costs arising from lease contracts that were recognized in the income statement for the period of 12 months ended 31 December 2019:

	Note	31 Dec. 2019 *mPLN*
Depreciation of right-of-use assets	5.3	(15.2)
Interest expenses on lease liabilities	4.3	(4.3)
Costs arising from leases of low-value assets		(0.5)
Costs arising from short-term leases		(2.7)
Income from subletting of office space		5.0
Total		**(17.7)**

5.15. Other financial liabilities

Selected accounting policies

Deferred payments for the acquisition of shares

Liabilities under deferred payments for the acquisition of shares are recognized at the present value of the expected payment.

Financial derivative instruments

Derivative instruments utilized by the Company 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 profit or loss for the reporting period.

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

Liabilities from the acquisition of shares include deferred payments for the purchase of shares in the company Nextbank Software amounting to PLN 1.9 million and in the company ComCERT amounting to PLN 0.8 million.

The agreement for the acquisition of shares in Nextbank Software was entered into on 28 November 2018 and it will be finally settled till 7 April 2021, whereas the agreement for the acquisition of shares in ComCERT was concluded on 20 May 2019 and it will be finally settled till 15 January 2022.

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Liabilities from currency forward contracts correspond to forward transactions in foreign currencies that have been concluded in order to hedge against our foreign currency risk.

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 fair values of financial assets and liabilities held by the Company both as at 31 December 2019 and 31 December 2018 did not significantly differ from their carrying values.

As at 31 December 2019	**Carrying value** *mPLN*	**Level 1i)** *mPLN*	**Level 2 ii)** *mPLN*	**Level 3iii)** *mPLN*
Financial liabilities				
Liabilities from currency forward contracts	4.0	-	4.0	-
Liabilities carried at amortized cost	2.7	-	-	2.7
Total	**6.7**	**-**	**4.0**	**2.7**

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** *mPLN*	**Level 1i)** *mPLN*	**Level 2 ii)** *mPLN*	**Level 3iii)** *mPLN*
Financial liabilities				
Liabilities from currency forward contracts	1.3	-	1.3	-
Liabilities carried at amortized cost	1.9	-	-	1.9
Total	**3.2**	**-**	**1.3**	**1.9**

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

5.16.Trade payables and other liabilities

Selected accounting policies

Trade payables *related to operating activities are recognized and disclosed at the amounts due for payment. Such liabilities result from goods and services provided to the Company, which have already been invoiced or have not been invoiced yet but receiving such invoices is 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 applicable regulations.*

Liabilities arising from project-related penalties

Project-related penalties constitute compensation for failure to fulfill or improper fulfilment of a performance obligation, and they result from contracts concluded with customers rather than from the provisions of law of a given country.

Project-related penalties are a variable component of consideration which decreases the transaction price, whereas a liability arising from contractual penalties is a kind of a refund liability, but not a contract liability.

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.*

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As at 31 December 2019 and in the comparable period, the Company had the following trade payables and liabilities from valuation of contracts:

	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	mPLN	*mPLN*	*mPLN*	*mPLN*
To related parties, of which:	**-**	**13.1**	**-**	**13.8**
Invoiced payables	-	7.9	-	10.7
to subsidiaries	-	*7.7*	-	*10.6*
to other related parties	-	*0.2*	-	*0.1*
Uninvoiced payables	-	5.2	-	3.1
to subsidiaries	-	*4.6*	-	*3.0*
to other related parties	-	*0.6*	-	*0.1*
To other entities, of which:	**-**	**57.3**	**-**	**62.0**
Invoiced payables	-	40.1	-	38.0
Uninvoiced payables	-	17.2	-	24.0
Liabilities arising from contractual penalties	-	-	-	-
Trade payables and liabilities from valuation of contracts	**-**	**70.4**	**-**	**75.8**

Trade payables are non-interest bearing. Related party transactions have been presented in explanatory note 5.20 to these financial statements.

The table below discloses the Company's gross trade payables as at 31 December 2019 and 31 December 2018, by maturity based on contractual undiscounted payments.

	31 Dec. 2019		31 Dec. 2018	
	mPLN	*%*	*mPLN*	*%*
Trade payables				
Liabilities due already	9.1	12.9%	32.0	42.2%
Liabilities falling due within 3 months	58.0	82.4%	43.8	57.8%
Liabilities falling due within 3 to 6 months	2.4	3.4%	-	-%
Liabilities falling due after more than 6 months	0.9	1.3%	-	-%
	70.4	**100%**	**75.8**	**100%**

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As at 31 December 2019 and in the comparable period, the Company had the following other liabilities:

	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	mPLN	*mPLN*	*mPLN*	*mPLN*
Corporate income tax payable	-	4.6	-	15.1
Other liabilities to the state and local budgets				
Value added tax (VAT)	-	-	-	3.9
Personal income tax (PIT)	-	5.2	-	4.8
Social security contributions	-	7.8	-	6.7
Other	-	0.2	-	0.2
Total liabilities to the state and local budgets	**-**	**13.2**	**-**	**15.6**
Other liabilities				
Received advances of grants related to assets	-	5.6	-	1.8
Liabilities from purchases of tangible assets and intangible assets	-	5.2	-	4.1
Other liabilities	0.1	0.7	0.5	1.1
Total other liabilities	**0.1**	**11.5**	**0.5**	**7.0**

5.17. Contract liabilities

Selected accounting policies

Liabilities from contracts with customers represent obligations to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.
Contract liabilities include 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, as well as future revenues from the provision of services such as IT support (maintenance) which are recognized over time.
Due to the large variety of performance obligations, it is difficult to determine the point in time at which the Company's performance obligations are satisfied. Most often, in the case of contracts for the implementation of comprehensive IT systems and maintenance contracts, the Company 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 Company 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 it the Company's opinion is tantamount to transferring the control of the license to the customer.

Estimates

Each time, the Company 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.

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As at 31 December 2019 and 31 December 2018, the Company's contract liabilities resulted from obligations listed in the table below:

	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	mPLN	*mPLN*	*mPLN*	*mPLN*
Contract liabilities				
To related parties, of which:	-	**0.7**	-	**1.9**
Deferred income arising from contracts with customers	-	0.7	-	0.6
to subsidiaries	-	*0.7*	-	*0.2*
to other related parties	-	-	-	*0.4*
Liabilities arising from valuation of IT contracts	-	-	-	1.3
to subsidiaries	-	-	-	*1.3*
To other entities, of which:	**17.5**	**34.2**	**8.7**	**24.6**
Deferred income arising from contracts with customers	17.5	26.5	8.7	18.0
Liabilities arising from valuation of IT contracts	-	7.7	-	6.6
Total contract liabilities	**17.5**	**34.9**	**8.7**	**26.5**

During the period of 12 months ended 31 December 2019 and in the comparable period, liabilities from contracts with customers changed as follows:

	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
	mPLN	*mPLN*
Contract liabilities as at 1 January 2019	**35.2**	**29.3**
Invoices issued above the level of performance obligations satisfied	(117.8)	(67.8)
Fulfilment of new uninvoiced performance obligations (-), changes in estimated transaction prices, modification of other assumptions (+) / (-)	135.0	73.7
Contract liabilities at the end of the period	**52.4**	**35.2**

5.18. Provisions

Selected accounting policies

A provision should be recognized when the Company 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

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

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.

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.

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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 Company 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 each reporting date, the Company 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 Company's current expectations in respect of fulfilment of its warranty obligations in future periods.

Post-employment benefits

The provision for post-employment benefits is created for employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment. The Company has a defined contribution plan under which it pays fixed contributions into a separate entity (in Poland – the social insurance fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The Company creates the provision for post-employment benefits based on calculations made by an independent actuary. 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

From 1 January 2019, provisions for contractual penalties only include provisions for non-project penalties, i.e. provisions for penalties that are not directly related to the fulfilment of a performance obligation, which constitute compensation for damages rather than for failure to fulfill a performance obligation. Non-project penalties arise from the provisions of law rather than from the contract itself and any contractual penalties provided for therein. Whereas, project-related penalties resulting from failure to fulfill or improper fulfilment of a performance obligation are presented in the line 'Liabilities arising from project-related penalties' (see explanatory note 5.16).

Provisions for contractual penalties are presented in 'Other provisions'.

Provisions for risks of litigation and other provisions

Other provisions include mainly provisions for pending court proceedings and are created on the basis of available information, in particular the opinions of lawyers and independent experts. The Company creates a provision if at the end of the reporting period the Company has a present obligation arising from past events which can be measured with sufficient reliability, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Estimates

It should be taken into account that all provisions estimated by the Company, in particular provisions for contractual penalties and onerous contracts, required the exercise of professional judgment and estimates in order to determine the most probable amount of the future outflow of economic benefits from the Company. However, such estimates may change in the future and the actual outflow of benefits may turn out to be larger or smaller than disclosed in these financial statements.

During the period of 12 months ended 31 December 2019 and in the comparable period, the amount of provisions changed as follows:

	Provision for compensations	Post-employment benefits	Provision for warranty repairs	Provision for onerous contracts	Other provisions	Total
	mPLN	*mPLN*	*mPLN*	*mPLN*	*mPLN*	*mPLN*
As at 1 January 2019	**0.3**	**2.2**	**0.1**	**18.8**	**0.1**	**21.5**
Provisions created (+)	-	0.7	0.1	1.9	-	**2.7**
Unwinding of discount (+)	-	-	-	0.9	-	**0.9**
Provisions utilized / reversed (-)	(0.3)	-	-	(12.5)	-	**(12.8)**
As at 31 December 2019, of which	**-**	**2.9**	**0.2**	**9.1**	**0.1**	**12.3**
Short-term	-	0.3	0.2	8.1	0.1	**8.7**
Long-term	-	2.6	-	1.0	-	**3.6**
As at 1 January 2018	**1.3**	**2.1**	**-**	**30.1**	**0.1**	**33.6**
Provisions created (+)	-	-	0.1	2.2	-	**2.3**
Unwinding of discount (+)	-	-	-	1.6	-	**1.6**
Provisions utilized / reversed (-)	(1.0)	0.1	-	(15.1)	-	**(16.0)**
As at 31 December 2018, of which	**0.3**	**2.2**	**0.1**	**18.8**	**0.1**	**21.5**
Short-term	0.3	0.2	0.1	11.1	0.1	**11.8**
Long-term	-	2.0	-	7.7	-	**9.7**

The provision for warranty repairs covers the costs of providing warranty services ensured by the manufacturers of computer hardware, as well as the standard warranty for proprietary software that has been delivered to the Company's customers.

In compliance with the Labour Code provisions, Asseco Poland S.A. makes a severance payment in the amount of one-month average salary to each retiring employee.

In order to measure the value of such liabilities as at the reporting date, the actuary made the following main assumptions:

	31 Dec. 2019	31 Dec. 2018
Discount rate (%)	2.00%	3.05%
Forecast inflation rate (%)	2.50%	2.50%
Probability of leaving the job prior to becoming eligible for benefits (%)	17.60%	17.50%
Projected rate of salaries increase (%)	5.00%	5.00%

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5.19. Accruals and deferred income

Selected accounting policies

Accrual for unused holiday leaves

The Company 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 Company's employees because in Poland 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 Company 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 Company'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 Company 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 Company has no realistic alternative but to make the payments.

Grants related to assets

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Grants are recognized when there is reasonable assurance that the Company will comply with the conditions attaching to them, and that the grants will be received. The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. While the purpose of allocating a grant received is an important issue.

If a government grant received by the Company is related to assets, then it is accounted for as deferred income which is afterwards systematically, by way of equal annual write-offs, recognized in profit or loss over the estimated useful life of the related asset as a reduced depreciation expense.

Estimates

The Company 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 Company.

	31 Dec. 2019		31 Dec. 2018	
	Long-term	Short-term	Long-term	Short-term
	mPLN	*mPLN*	*mPLN*	*mPLN*
Accruals, of which:	**-**	**33.0**	**-**	**33.8**
Accrual for unused holiday leaves	-	12.7	-	11.7
Accrual for employee and management bonuses	-	20.3	-	22.1
Deferred income, of which:	**32.7**	**1.5**	**32.4**	**1.3**
Grants related to assets	32.7	1.5	32.4	1.3
Total	**32.7**	**34.5**	**32.4**	**35.1**

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

The largest portion of deferred income is comprised by grants related to assets. Grants related to assets represent subsidies received by the Company in connection with its development projects or projects related to the creation of IT competence centers.

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5.20. Related party transactions

Revenues from related parties include sales of goods and IT services related to ongoing IT projects, as well as proceeds from letting of own office space and from other activities. Transactions with management board members of other companies of the Group are associated with proceeds from the sale of shares.

Purchases from related parties include purchases of goods and services related to ongoing IT projects, sponsorship activities, as well as purchases of consulting services.

	Revenues		Purchases	
	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
	mPLN	*mPLN*	*mPLN*	*mPLN*
Transactions with subsidiaries	23.5	31.2	65.7	79.8
Transactions with associates	4.9	6.1	0.2	0.2
Transactions with entities related through the Key Management Personnel and Members of the Supervisory Board	1.7	3.6	-	1.1
Transactions with Members of the Management Board and Commercial Proxies of Asseco Poland S.A.	0.1	-	0.8	0.7
Transactions with the Company's Key Management Personnel	-	1.4	-	-
Transactions with Members of the Supervisory Board	-	-	2.5	1.8
Total related party transactions	**30.2**	**42.3**	**69.2**	**83.6**

	Trade receivables, other receivables and contract assets as at		Trade payables and other liabilities as at	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
	mPLN	*mPLN*	*mPLN*	*mPLN*
Transactions with subsidiaries	22.2	16.6	12.7	15.7
Transactions with associates	1.4	2.4	0.4	-
Transactions with the Group's Key Management Personnel	70.6	77.8	-	-
Transactions with entities related through the Key Management Personnel and Members of the Supervisory Board	0.3	0.5	0.2	0.4
Transactions with Members of the Management Board and Supervisory Board and Commercial Proxies of Asseco Poland S.A.	-	-	0.6	-
Total related party transactions	**94.5**	**97.3**	**13.9**	**16.1**

Due to the acquisition of a significant stake in Asseco Poland S.A. by Cyfrowy Polsat Group, which transaction was effectively settled on 30 December 2019 and as a result of which Cyfrowy Polsat Group held 22.95% of total shares and voting rights at the General Meeting of Shareholders of Asseco Poland S.A. as at 31 December 2019, Cyfrowy Polsat Group has been identified as a related party of the Company. Therefore, the above tables disclose the outstanding balances of receivables and liabilities between the Company and entities belonging to Cyfrowy Polsat Group as at 31 December 2019, while sales and purchases were omitted because their amounts recognized just for the last day of 2019 were insignificant.

As at 31 December 2019, receivables from related parties comprised trade receivables and contract assets amounting to PLN 16.5 million, as well as other receivables amounting to PLN 78.0 million. As at 31 December 2018, receivables from related parties comprised trade receivables amounting to PLN 14.3 million, as well as other receivables amounting to PLN 83.0 million.

As at 31 December 2019, liabilities to related parties comprised trade payables and contract liabilities amounting to PLN 13.8 million, as well as other liabilities amounting to PLN 0.1 million. As at 31 December 2018, liabilities to related parties comprised trade payables amounting to PLN 15.7 million, as well as other liabilities amounting to PLN 0.4 million.

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Loans granted to related parties	31 Dec. 2019	31 Dec. 2018
	mPLN	*mPLN*
Podkarpacki Fundusz Nieruchomości Sp. z o.o.	14.1	18.2
Eversoft Poland Sp. z o.o.	1.8	-
Total	**15.9**	**18.2**

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

VI. Explanatory notes to the statement of cash flows

6.1. Cash flows – operating activities

The table below presents items included in the line 'Changes in working capital':

	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Change in inventories	(5.6)	0.1
Change in receivables and contract assets	78.3	109.8
Change in other non-financial assets	0.7	(0.7)
Change in contract liabilities	5.1	(11.9)
Change in prepayments and accruals	(28.3)	(31.5)
Change in provisions	(9.6)	(12.1)
Total	**40.6**	**53.7**

6.2. Cash flows – investing activities

The table below presents proceeds and expenditures relating to property, plant and equipment, and intangible assets during the period of 12 months ended 31 December 2019 and in the comparable period:

	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 mPLN
Disposal of property, plant and equipment	7.9	2.5
Disposal of intangible assets	1.7	-
Acquisition of property, plant and equipment	(37.9)	(23.5)
Acquisition of intangible assets	(8.3)	(3.6)
Expenditures for development projects	(25.6)	(12.6)

The table below presents expenditures for the acquisition of shares as well as proceeds from the sale of shares during the period of 12 months ended 31 December 2019:

Name of entity	Expenditures for the acquisition of shares *mPLN*	Proceeds from the sale of shares mPLN
Asseco Innovation Fund Sp. z o.o.	(1.0)	-
Asseco South Eastern Europe S.A.	-	2.7
Eversoft Sp. z o.o.	(2.6)	-
Sapiens Technologies (1982) Ltd.	-	1.0
Asseco Central Europe, a.s.	-	4.3
Formula Systems (1985), Ltd.	-	2.8
Total	**(3.6)**	**10.8**

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The table below presents cash inflows from loans collected as well as outflows for loans granted during the period of 12 months ended 31 December 2019:

Name of entity	Loans collected mPLN	Loans granted mPLN
Podkarpacki Fundusz Nieruchomości Sp. z o.o.	4.0	-
Asseco Resovia S.A.	0.5	-
Eversoft Sp. z o.o.	0.3	(2.0)
Loans granted to employees	1.7	(1.8)
Total	**6.5**	**(3.8)**

6.3. Cash flows – financing activities

- Dividends paid out represent the divided of PLN 254.8 million that was distributed by the Company for the year 2018, which has been described in detail in explanatory note 4.6;
- Repayments of bank loans and borrowings totalling to PLN 53.8 million included primarily the amount of PLN 51.6 million repaid under an investment loan that was obtained for construction of the Company's office building in Wilanów, Warsaw, as well as repayments of other borrowings;
- Lease expenditures:

In 2019, total cash outflows for payment of lease liabilities amounted to PLN 39.4 million, of which:

- PLN 31.9 million for payment of liabilities recognized as lease liabilities in accordance with MSSF 16;
- PLN 4.3 million for payment of interest on the above-mentioned liabilities;
- PLN 3.2 million for payment of lease liabilities under the practical expedient regarding short-term leases and leases of low-value assets.

As a result of applying the new standard, a significant portion of lease and rental fees, which used to be charged to operating activities in the cash flow statement, in 2019 was recognized as payment of lease liabilities and recognized as part of financing activities.

		Interest-bearing bank loans and borrowings mPLN	Leases (IFRS 16) mPLN	Dividend payment liabilities mPLN	Grants mPLN
As at 1 January 2019		**54.0**	**45.4**	**-**	**1.4**
Impact of the adoption of IFRS 16 on the opening balance		-	70.5	-	-
As at 1 January, including the impact of IFRS 16		**54.0**	**115.9**	**-**	**1.4**
Cash flows	Inflows	-	-	-	5.1
	Forward contracts – inflows	-	0.1	-	-
	Repayment of principal amount – outflows	(53.8)	(31.9)	(254.8)	-
	Interest paid – outflows	(0.6)	(4.3)	-	-
Non-cash changes	Interest accrued	0.4	4.3	-	-
	Non-cash increase in liabilities	-	(1.4)	254.8	-
	Foreign currency translation differences recognized in financial income/expenses	-	(0.2)	-	-
As at 31 December 2019		**-**	**82.5**	**-**	**6.5**

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		Interest-bearing bank loans and borrowings	Finance leases (IAS 17)	Dividend payment liabilities	Grants
		mPLN	*mPLN*	*mPLN*	*mPLN*
As at 1 January 2018		**88.9**	**65.5**	**-**	**9.9**
Cash flows	Inflows	-	-	-	1.0
	Repayment of principal amount – outflows	(34.6)	(21.9)	(249.8)	-
	Interest paid – outflows	(2.4)	(3.2)	-	-
	Outflows	-	-	-	(9.5)
Non-cash changes	Interest accrued	2.1	3.2	-	-
	Non-cash increase in liabilities	-	-	249.8	-
	Foreign currency translation differences recognized in financial income/expenses	-	1.8	-	-
As at 31 December 2018		**54.0**	**45.4**	**-**	**1.4**

VII. Explanatory notes on objectives and principles of financial risk management

Asseco Poland S.A. is exposed to various types of risks arising either from the macroeconomic situation in Poland as well as from microeconomic situation within its own organization. The main market factors that may have an adverse impact on the Company's financial performance are: (i) fluctuations in foreign currency exchange rates versus the Polish zloty, and (ii) changes in market interest rates.

- **Foreign currency risk**

The Company's main functional currency is the Polish zloty, however, certain IT contracts or property lease contracts are denominated in foreign currencies (EUR and USD).

With regard to the above, the Company is exposed to fluctuations in its financial performance resulting from differences in foreign currency exchange rates versus the Polish zloty in the period from concluding a contract until it is invoiced or paid for.

Identification: According to the Company's procedures pertaining to entering into commercial contracts, each agreement that is concluded or denominated in a foreign currency shall be subject to special registration.

Measurement: The exposure to foreign currency risk is measured by the value of a contract concluded in a foreign currency on one hand, and on the other by the nominal amount of currency derivative instruments concluded in the financial market. The procedures applicable to the execution of IT projects require making systematic updates of the project implementation schedules as well as of cash flows generated under individual projects.

Objective: The purpose of counteracting the risk of fluctuations in foreign currency exchange rates is to reduce their negative impact on the financial results of our contracts.

Contracts settled in foreign currencies are hedged with simple derivatives such as currency forward contracts (deliverable or non-deliverable, depending on a type of the hedged contract).

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Foreign currency risk hedges are matched by purchasing suitable financial instruments to offset the impact of changes in the risk-causing factor on the Company's financial performance (the changes in embedded instruments and concluded instruments are balanced out). However, due to a considerable variability in project implementation schedules and the resulting variability in cash flows, the Company is prone to changes in its exposure to foreign exchange risk. Therefore, the Company dynamically transfers its existing hedging instruments or concludes new ones with the objective to ensure the most effective matching. It has to be taken into account that the valuation of embedded instruments changes with the reference to the parameters as at the contract signing date (spot rate and swap points), while transferring or conclusion of new instruments in the financial market may only be effected on the basis of current rates available. Hence, it is possible that the value of financial instruments will not be matched and the Company's financial result will be potentially exposed to foreign currency risk.

The tables below present the foreign currency exposure of our receivables and liabilities as at 31 December 2019 and 31 December 2018:

31 Dec. 2019	Carrying value as at 31 Dec. 2019	Foreign currency exposure as at 31 Dec. 2019	EUR	USD
	mPLN	*mPLN*	*mPLN*	*mPLN*
Trade receivables and contract assets	221.0	8.2	2.0	6.2
Financial liabilities	82.6	33.6	33.6	-
Trade payables and liabilities from valuation of IT contracts	78.1	5.3	5.3	-

31 Dec. 2018	Carrying value as at 31 Dec. 2018	Foreign currency exposure as at 31 Dec. 2018	EUR	USD
	mPLN	*mPLN*	*mPLN*	*mPLN*
Trade receivables and contract assets	296.1	17.5	2.5	15.0
Financial liabilities	45.4	33.6	33.6	-
Trade payables and liabilities from valuation of IT contracts	83.7	7.8	0.8	7.0

As at 31 December 2019, the Company holds open forward contracts to sell EUR for the total nominal amount of PLN 54.3 million which shall be finally settled by 29 June 2022, as well as open forward contracts to buy EUR for the total nominal amount of PLN 5.8 million which shall be finally settled by 30 October 2020. The Company also holds open forward contracts to sell USD for the total nominal amount of PLN 24.0 million which shall be finally settled by 24 August 2022, as well as open forward contracts to purchase USD for the total nominal amount of PLN 1.2 million which shall be finally settled on 24 August 2022. Moreover, the Company holds open forward contracts to sell ILS for the total amount of PLN 7.8 million which shall be finally settled by 31 August 2020.

- <u>**Interest rate risk**</u>

The Company is exposed to the risk of interest rate changes primarily in two areas of its business activities: (i) change in the value of interest charged on loans granted to the Company, which are based on variable interest rates, and (ii) change in the valuation of concluded derivative instruments, which are based on the forward interest rate curve.

Identification: The interest rate risk arises and is recognized by the Company at the time of concluding a transaction or a financial instrument based on a variable interest rate.

Measurement: The Company measures its exposure to interest rate risk by preparing the statements of total amounts of all of its financial instruments based on a variable interest rate. Additionally, the Company maintains records of debt planned to be incurred during the next 12 months, and in the case of long-term instruments – for their effective period.

Objective: The purpose of reducing such risk is to minimize expenses arising from the concluded financial instruments based on a variable interest rate.

Actions: In order to reduce its interest rate risk, the Company may: (i) try to avoid incurring liabilities based on a variable interest rate or, if not possible, (ii) conclude forward rate agreements.

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Matching: The Company gathers and analyzes the current market information concerning its present exposure to interest rate risk. For the time being, the Company does not hedge against changes of interest rates due to low predictability of the repayment schedules of its liabilities based on a variable interest rate.

- **Counterparty credit risk**

The Company is exposed to the risk of defaulting contractors. This risk is connected firstly with the financial credibility and good will of customers to whom the Company provides IT solutions, and secondly with the financial credibility of contractors with whom supply transactions are concluded. The maximum exposure to credit risk is limited to the book value of financial assets.

Identification: The risk is identified each time when concluding contracts with clients, and afterwards during the settlement of payments.

Measurement: Determination of this type of risk requires the knowledge of complaints or pending judicial proceedings against a client already at the time of signing an agreement. Every two weeks the Company is obliged to control the settlement of payments under the concluded contracts, inclusive of the profit and loss analysis for individual projects.

Objective: Minimizing the amount of uncollectible receivables.

The risk control involves monitoring of the timely execution of bank transfers and, if needed, sending a reminder of outstanding payment, or turning receivables over to debt collection agencies.

A quantitative analysis of credit risk related to receivables has been presented in note 5.6.

- **Financial liquidity risk**

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool, which considers the maturity of its assets and liabilities as well as projected cash flows from its operations.

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

Quantitative analyses of the Company's liquidity broken down by categories of liabilities and assets are presented: for receivables in explanatory note 5.6 and for liabilities in explanatory note 5.16 to these financial statements.

- **Analysis of sensitivity – foreign currency risk**

The Company tries to conclude contracts with its clients in the Polish currency in order to avoid exposure to the risk arising from fluctuations in foreign currency exchange rates versus the Polish zloty.

The Company has analyzed the impact of changes in the exchange rate of PLN vs. EUR on its pre-tax financial results both as at 31 December 2019 and 31 December 2018. Assuming PLN appreciated by 10% versus EUR, the Company would recognize a financial gain of PLN 9.4 million. Conversely, if PLN depreciated 10% versus EUR, the Company's financial results would deteriorate by PLN 9.4 million.

As at 31 December 2019	Amount exposed to risk	Impact on financial results of the Company	
EUR	*mPLN*	(10%)	10%
Financial assets			
Forward contracts	2.6	5.0	(5.0)
Trade receivables	2.0	(0.2)	0.2
Liabilities			
Forward contracts	0.2	0.7	(0.7)
Trade payables	5.3	0.5	(0.5)
Lease liabilities	33.6	3.4	(3.4)
Balance		**9.4**	**(9.4)**

As at 31 December 2018	Amount exposed to risk	Impact on financial results of the Company	
EUR	*mPLN*	(10%)	10%
Financial assets			
Forward contracts	1.3	7.3	(7.3)
Trade receivables	2.5	(0.2)	0.2
Liabilities			
Trade payables	0.8	0.1	(0.1)
Finance lease liabilities	43.3	4.3	(4.3)
Balance		**11.5**	**(11.5)**

The Company has analyzed the impact of changes in the exchange rate of PLN vs. USD on its pre-tax financial results as at 31 December 2019. Assuming PLN appreciated by 10% versus USD, the Company would recognize a financial gain of PLN 1.8 million. Conversely, if PLN depreciated by 10% versus USD, the Company's financial results would deteriorate by PLN 1.8 million.

As at 31 December 2019	Amount exposed to risk	Impact on financial results of the Company	
USD	*mPLN*	(10%)	10%
Financial assets			
Forward contracts	0.3	0.5	(0.5)
Trade receivables	6.2	(0.6)	0.6
Liabilities			
Forward contracts	0.9	1.9	(1.9)
Liabilities for unpaid shares	0.4	-	-
Balance		**1.8**	**(1.8)**

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As at 31 December 2018	Amount exposed to risk	Impact on financial results of the Company	
USD	*mPLN*	(10%)	10%
Financial assets			
Trade receivables	15.0	(1.5)	1.5
Liabilities			
Trade payables	7.0	0.7	(0.7)
Forward contracts	1.1	4.4	(4.4)
Liabilities for unpaid shares	0.4	-	-
Balance		**3.6**	**(3.6)**

- **Analysis of sensitivity – interest rate risk**

The Company avoids obtaining bank loans that are based on a variable interest rate. In case it is necessary to conclude a loan agreement based on a variable interest rate, the Company does not really have a strategy for hedging against the rate risk involved. As at 31 December 2019, the Company had no debt under bank loans.

The following table presents the impact of changes in the loan base interest rate (3M WIBOR) on interest expenses incurred in 2019:

As at 31 December 2019 Loans based on a variable interest rate	Amount exposed to risk mPLN	Impact on financial results of the Company -1.0 pp	 1.0 pp
Short-term deposits	84.2	(1.6)	1.6

The following table presents the impact of changes in the loan base interest rate (3M WIBOR) on interest expenses incurred in 2018:

As at 31 December 2018 Bank loans based on the WIBOR variable interest rate	Amount exposed to risk mPLN	Impact on financial results of the Company -1.0 pp	 1.0 pp
Short-term deposits	230.5	(2.6)	2.6
Bank loans and debt securities issued	51.9	0.6	(0.6)

The interest rate risk involved in the Company's assets and other liabilities, which are based on variable interest rates, is insignificant and therefore has not been analyzed.

- **Methods adopted for conducting the sensitivity analysis**

The analysis of sensitivity to fluctuations in foreign exchange rates with potential impact on our financial results was conducted using the percentage deviations of +/-10%, by which the reference exchange rates, effective as at the end of the reporting period, were increased or decreased. The sensitivity of interest rate exposure was analyzed using the percentage deviations of +/- 1 pp.

- **Other types of risk**

Other types of risk are not analyzed for sensitivity due to their nature and impossibility of absolute classification.

- **Items of income, expenses, gains and losses recognized in the income statement**

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As at 31 December 2019, the following items of income, expenses, gains and losses were recognized in the Company's income statement:

Items of income, expenses, gains and losses recognized in the income statement for the year ended 31 December 2019:	Interest income (expenses)	Gain (loss) on foreign currency translation differences	Reversal (recognition) of impairment losses	Gain (loss) on valuation and exercise	Total
Financial assets:	**5.0**	**0.8**	**2.8**	**2.0**	**10.6**
Financial assets carried at fair value through profit or loss	-	-	-	2.0	2.0
Currency forward contracts	-	-	-	2.0	2.0
Cash and cash equivalents	2.4	(0.6)	-	-	1.8
Financial assets, trade receivables and other receivables, of which:	2.6	1.4	2.8	-	6.8
Loans granted to related parties	1.6	-	0.9	-	2.5
Loans granted to other entities	-	-	-	-	-
Trade receivables and other receivables	1.0	1.4	1.9	-	4.3
Financial liabilities:	**(4.9)**	**0.3**	**-**	**(2.7)**	**(7.3)**
Financial liabilities carried at fair value through profit or loss:	(4.3)	0.4	-	(2.7)	(6.6)
Financial derivative instruments	-	-	-	(2.7)	(2.7)
Lease liabilities	(4.3)	0.4	-	-	(3.9)
Trade payables	(0.2)	(0.1)	-		(0.3)
Bank loans, borrowings and debt securities:	(0.4)	-	-	-	(0.4)
Bank loans	(0.4)	-	-	-	(0.4)

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As at 31 December 2018, the following items of income, expenses, gains and losses were recognized in the Company's income statement:

Items of income, expenses, gains and losses recognized in the income statement for the year ended 31 December 2018:	Interest income (expenses)	Gain (loss) on foreign currency translation differences	Reversal (recognition) of impairment losses	Gain (loss) on valuation and exercise	Total
Financial assets:	**6.5**	**6.8**	**11.4**	**6.7**	**31.4**
Financial assets carried at fair value through profit or loss	-	-	-	6.7	6.7
Currency forward contracts	-	-	-	6.7	6.7
Cash and cash equivalents	3.7	(1.9)	-	-	1.8
Financial assets and trade receivables, of which:	2.8	8.7	11.4	-	22.9
Loans granted to related parties	1.4	-	8.0	-	9.4
Loans granted to other entities	0.1	-	-	-	0.1
Trade receivables and other receivables	1.3	8.7	3.4	-	13.4
Financial liabilities:	**(5.9)**	**(1.8)**	**-**	**(9.5)**	**(17.2)**
Financial liabilities carried at fair value through profit or loss:	(3.1)	(1.8)	-	(9.5)	(14.4)
Financial derivative instruments	(3.1)	(1.8)	-	(9.5)	(14.4)
Finance lease liabilities	-	-	-	-	
Trade payables	(0.6)	-	-	-	(0.6)
Interest-bearing bank loans, borrowings and debt securities issued:	(2.2)	-	-	-	(2.2)
Bank loans	(1.9)	-	-	-	(1.9)
Loans	(0.3)	-	-	-	(0.3)

VIII. Other explanatory notes

8.1. Off-balance-sheet liabilities

Selected accounting policies

Off-balance-sheet liabilities *are primarily contingent liabilities, by which the Company 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 Company, 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.

Lease contracts subject to practical expedients for short-term leases and leases of low-value assets

The Company applies a practical expedient to rental contracts and other contracts of similar nature that are concluded for a period shorter than 12 months from the lease commencement date.

Whereas, the practical expedient for leases of low-value assets is applied by the Company primarily to leases of IT hardware and other equipment with a low initial value. According to guidance provided by the International Accounting Standards Board (IASB), items whose value does not exceed USD 5 thousand may be considered as low-value assets.

In both the above-mentioned exceptions, the lease payments are recognized as expenses basically 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.

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As at 31 December 2019, the Company's contingent liabilities resulted from sureties granted by the Company for its related Asseco Lietuva UAB and were as follows:

- On 13 November 2017, Asseco Poland made a commitment to grant a surety up to the amount of PLN 6.2 million in favour of SG Equipment Leasing Polska Sp. z o.o. in order to secure a loan agreement. Asseco Poland's obligations resulting from this surety shall expire upon the repayment of all liabilities under the loan agreement by Asseco Lietuva UAB; however, not later than till 31 December 2020. As at the reporting date of 31 December 2019, such liabilities amounted to PLN 2.1 million.

The table below presents our contingent liabilities as at 31 December 2019 and 31 December 2018:

Contingent liabilities	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
Liabilities from guarantees of due performance of contracts		
Liabilities falling due within 3 months	2.4	4.0
Liabilities falling due within 3 to 12 months	30.1	36.7
Liabilities falling due within 1 to 5 years	69.7	50.4
Liabilities falling due after 5 years	7.7	5.5
Total	**109.9**	**96.6**

In the Management's opinion, the likelihood of having to settle the liabilities presented in the table above is very low.

None of the above-described guarantee obligations meet the definition of a financial guarantee under IFRS 9.

The table below presents the amounts of off-balance-sheet liabilities from lease contracts subject to practical expedients as at 31 December 2019. Figures reported as at 31 December 2018 have been disclosed in accordance with IAS 17 (as described in explanatory note 2.5 to these financial statements) and they represent off-balance-sheet liabilities from operating leases. Whereas, as at 31 December 2019 off-balance-sheet lease liabilities result from lease contracts subject to practical expedients permitted under IFRS 16 for short-term leases or leases of low-value assets.

	31 Dec. 2019 IFRS 16 *mPLN*	31 Dec. 2018 IAS 17 *mPLN*
Liabilities from rental of space		
In the period up to 1 year	0.7	6.6
In the period from 1 to 5 years	1.0	13.7
Over 5 years	-	4.1
Total	**1.7**	**24.4**

	31 Dec. 2019 IFRS 16 *mPLN*	31 Dec. 2018 IAS 17 *mPLN*
Liabilities from operating leases of property, plant and equipment		
In the period up to 1 year	-	1.8
In the period from 1 to 5 years	-	-
Total	**-**	**1.8**

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Disputes in litigation as at 31 December 2019

As at 31 December 2019, the Company was party to two court proceedings initiated by the same claimant, in which the total value of the subject in dispute amounted to approx. PLN 13.3 million. The Company's Management assessed the validity of claims brought in court and considered them to be groundless, and consequently assessed the risk of an outflow of economic benefits from the Company to be so small that there was no need to create any provision. In the said disputes, the claimant makes unjustified demands upon the Company to transfer proprietary software copyrights and extend the licenses granted.
In addition, during 2019, a new court dispute was brought against the Company in which the claimant filed a claim for payment of PLN 17.1 million. The Company's Management assessed the claims presented in the lawsuit and considered them to be completely groundless and thus determined there was no need to create any provision.

8.2. Seasonal and cyclical business

The Company's operating revenues are subject to some seasonality in individual quarters of the year. The fourth quarter revenues tend to be somewhat 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.

8.3. Employment

Average number of employees during the reporting period*	12 months ended 31 Dec. 2019	12 months ended 31 Dec. 2018
Management Board	10	10
Production departments	1,768	1,835
Sales departments	79	80
Administration departments	330	326
Total	**2,187**	**2,251**

**Average employment during the reporting period in full-time salaried jobs, i.e. employment in full-time jobs adjusted for (reduced by) positions which are not salaried by the Company (such as an unpaid leave, maternity leave, etc.)*

Number of employees as at:	31 Dec. 2019	31 Dec. 2018
Management Board	10	10
Production departments	1,879	1,920
Sales departments	80	85
Administration departments	355	359
Total	**2,324**	**2,374**

8.4. 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 financial statements for the years ended 31 December 2019 and 31 December 2018, in a breakdown by type of service:

	12 months ended 31 Dec. 2019 *mPLN*	12 months ended 31 Dec. 2018 *mPLN*
Obligatory audit of annual financial statements	1.1	1.3

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8.5. Remuneration of the Key Personnel

The table below presents the amounts of remuneration paid to the Key Personnel of Asseco Poland S.A. for performing their duties during the years 2019 and 2018.

Remuneration for the period of	**12 months ended 31 Dec. 2019** ***mPLN***	**12 months ended 31 Dec. 2018** ***mPLN***
Management Board		
Adam Góral	2.0	1.9
Andrzej Dopierała	0.5	0.4
Tadeusz Dyrga*	0.5	1.6
Krzysztof Groyecki	1.0	0.8
Rafał Kozłowski	0.8	0.7
Marek Panek	0.8	0.7
Paweł Piwowar	0.9	1.4
Zbigniew Pomianek	3.5	3.5
Sławomir Szmytkowski **	0.3	-
Artur Wiza	1.0	0.8
Gabriela Żukowicz	1.0	1.1
Total	**12.3**	**12.9**
Supervisory Board		
Izabela Albrycht	0.12	0.12
Jacek Duch	0.23	0.23
Piotr Augustyniak	0.15	0.15
Dariusz Brzeski	0.12	0.12
Artur Kucharski	0.15	0.15
Adam Noga	0.16	0.15
Total	**0.93**	**0.92**
Total	**13.2**	**13.8**

** Mr. Tadeusz Dyrga has no longer been a Member of the Management Board Asseco Poland S.A. since 1 July 2019.*
*** From 1 July 2019, Mr. Sławomir Szmytkowski has served as Member of the Management Board Asseco Poland S.A., the remuneration disclosed in the table refers to the period of performing this management function.*

8.6. Capital management

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

The Company 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 Company may decide to pay out a dividend, return some capital to shareholders, or issue new shares.

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

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	31 Dec. 2019 *mPLN*	31 Dec. 2018 *mPLN*
Bank loans, borrowings and debt securities	-	54.0
Lease liabilities	82.6	45.4
Minus cash and cash equivalents (-)	(168.7)	(264.7)
Net debt	**(86.1)**	**(165.3)**
Equity	4,892.4	4,949.8
Equity and net debt	**4,806.3**	**4,784.5**
Leverage ratio	**-1.8%**	**-3.5%**

The change in the leverage ratio for 2019 as compared to the previous year is attributable to the increase in lease liabilities due to the implementation of IFRS 16 by the Company. The leverage ratio remains within the target range set by the Company's Management.

8.7. Significant events after the reporting period

- *Impact of the COVID-19 coronavirus on the Company's operations*

In connection with the recommendation sent by the Polish Financial Supervision Authority on 12 March 2020, the Company hereby informs that, at the date of publication of this report, we have not yet completed the analysis and quantification of the impact that the COVID-19 coronavirus may have on the future financial position and financial performance of Asseco Poland S.A. Such impact will depend on the development of the epidemiological situation in Poland and worldwide, as well as on the actions that will be undertaken by the Government of Poland and the legislative measures they will ultimately enact. As at the date of publication of this report, the Company has recorded just a limited direct impact of the emergence of the virus on its business operations, financial position and economic results. As a consequence of the entry into force in Poland of the Act of 2 March 2020 on special solutions related to the prevention, counteracting and combating of COVID-19, other infectious diseases and emergencies caused by them (Journal of Laws of 2020, item 374), and also as a result of actions undertaken by Polish authorities, the Company has made efforts to enable most of our employees to work remotely in order to ensure business continuity and continued provision of IT services to our customers. As at the date of publication of this report, the Management Board has assessed that coronavirus-related situation may cause some delays in the implementation of those parts of IT projects which were supposed to be initiated in the first and second quarter of 2020. Apart from that, at the date of publication of this report, all the Company's departments operate on an ongoing basis and fulfill their contractual obligations within the deadlines specified in relevant contracts. Asseco Poland S.A. has sufficient financial resources to continue its business operations, including the settlement of current liabilities. The Company has a stable financial situation, enabling a balanced approach to the challenges posed by the current crisis, and will continually monitor developments and adjust its activities to changing market conditions. However, in the event of prolonged occurrence of the pandemic and its negative impact on the global economy, this situation may have an adverse impact on the organizational and financial aspects of the Company's operations.

- *Signing the plan of merger between Asseco Poland S.A. and SKG S.A.*

On 16 March 2020, Asseco Poland S.A. agreed upon and signed the plan of merger with SKG S.A. Both the companies will be merged pursuant to art. 492 § 1 item 1 of the Commercial Companies Code (merger by takeover), this is by transferring all the assets of SKG to Asseco (the "Merger"). As a result of the Merger, the company of SKG shall be dissolved without going into liquidation. Because the Taking-over Company already holds all the shares in the Acquired Company, the Merger will be conducted without increasing the share capital of the Taking-over Company as well as without an exchange of shares in SKG (being the Acquired Company) for shares in Asseco Poland S.A. (acting as the Taking-over Company). The Articles of Association of the Taking-over Company will not be subject to any amendment in connection with the Merger.

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- *Establishing of a new company Asseco Services Sp. z o.o.*

On 18 March 2020, we established a new company called Asseco Services Sp. z o.o. The newly founded company is a 100% owned subsidiary of Asseco Poland S.A.

8.8. Significant events related to prior years

l the date of preparing these 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.

Approval for publication by the Management Board

These financial statements of Asseco Poland S.A. for the period of 12 months ended 31 December 2019 have been approved for publication by the Management Board of Asseco Poland S.A. on 23 March 2020.

Management Board:

President
of the Management Board
Adam Góral

Vice President
of the Management Board
Andrzej Dopierała

Vice President
of the Management Board
Krzysztof Groyecki

Vice President
of the Management Board
Rafał Kozłowski

Vice President
of the Management Board
Marek Panek

Vice President
of the Management Board
Paweł Piwowar

Vice President
of the Management Board
Zbigniew Pomianek

Vice President
of the Management Board
Sławomir Szmytkowski

Vice President
of the Management Board
Artur Wiza

Vice President
of the Management Board
Gabriela Żukowicz

Person responsible for maintaining the accounting books:

Chief Accountant

Renata Bojdo

Solutions for demanding business.

Asseco Poland S.A.
14 Olchowa St., 35-322 Rzeszów, Poland
Phone: +48 17 888 55 55
Fax: +48 17 888 55 50
Email: info@asseco.pl

inwestor.asseco.pl