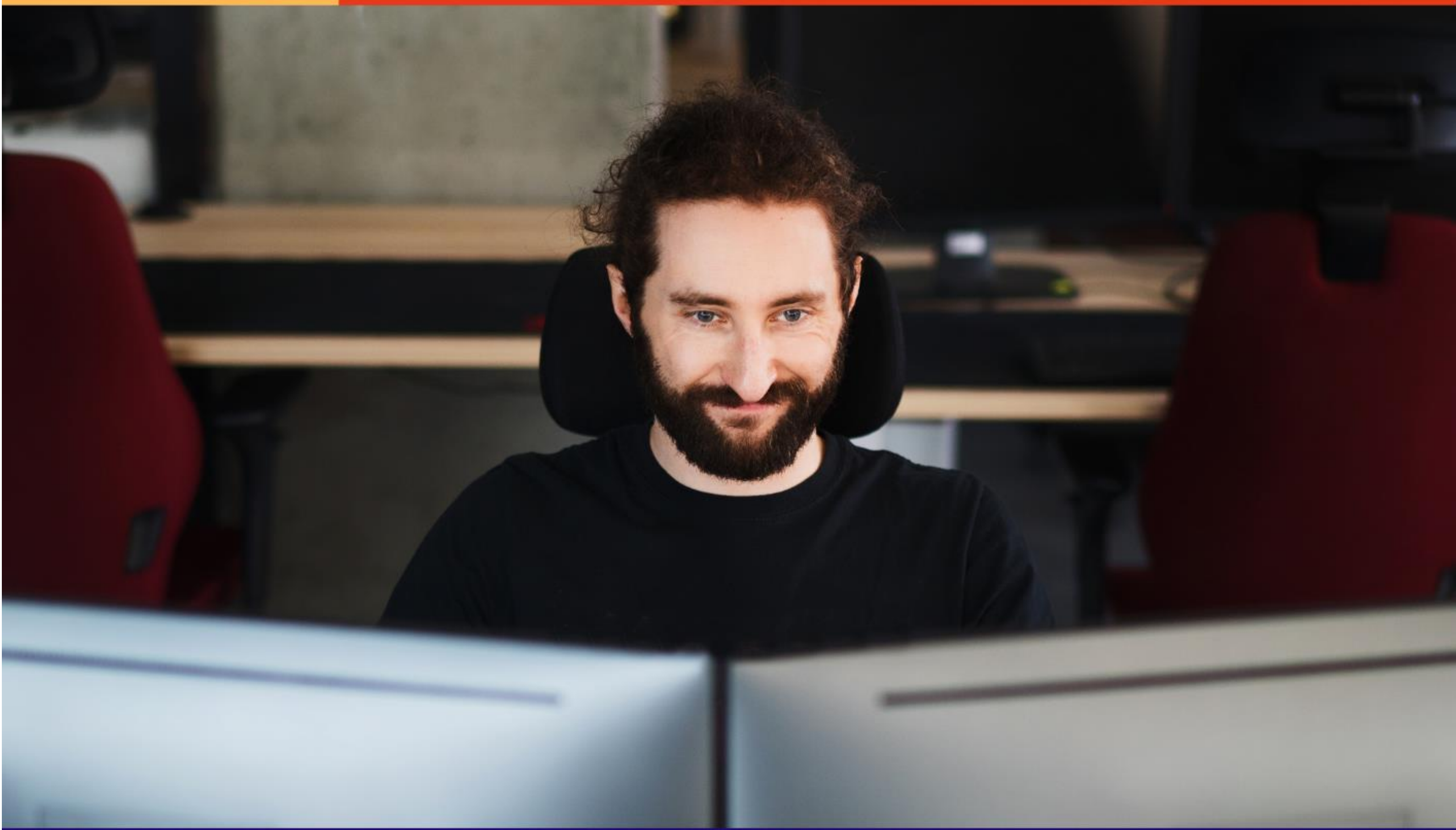
spyrosoft



Semi-annual report of the Management Board on the activities of the Spyrosoft S.A. Capital Group and Spyrosoft S.A. for the 1st half of 2023

Wrocław, 27 September 2023

TABLE OF CONTENTS

1. SELECTED FINANCIAL DATA

Financial data of the Spyrosoft Capital Group and Spyrosoft S.A. have been converted into EUR and presented in the table below according to the following principles:

- for assets and liabilities items – at the average exchange rate specified by the National Bank of Poland as at 30.06.2023 – 4.4503 PLN/EUR, as at 31.12.2022 – 4.6899 PLN/EUR

- for statement of comprehensive income items and cash flow statement items – at the arithmetic average of average exchange rates published by the National Bank of Poland [...] as of every last day of month during the period from 1.01.2023 to 30.06.2023 – 4.6130 PLN/EUR, from 1.01.2022 to 30.06.2022 – 4,6427 PLN/EUR.

This report contains statements relating to the future and assessment of the future by the Issuer's management board, based on certain assumptions that are subject to risk and uncertainty. Therefore, the Group is not responsible for any decisions made on the basis of this information.

CONSOLIDATED DATA

Selected financial data (in thousand)	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022	YOY change
	PLN		EUR		
Net revenue from sales of products, goods and materials	205 004	139 878	44 440	30 129	47%
Profit (loss) from operating activity	15 276	18 052	3 311	3 888	-15%
EBITDA*	20 496	22 180	4 443	4 777	-8%
Gross profit (loss)	13 040	17 952	2 827	3 867	-27%
Net profit (loss)	7 660	10 742	1 661	2 314	-29%
Net inflows from operational activities	11 128	14 452	2 412	3 113	-23%
Net inflows from investment activities	(9 887)	(4 862)	(2 143)	(1 047)	103%
Net inflows from financial activities	2 766	(986)	600	(212)	-381%
Net inflows – total	4 007	8 604	869	1 853	-53%

*EBITDA calculated as operating profit increased by depreciation

STANDALONE DATA

Selected financial data (in thousand)	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022	from 01.01.2023 to 30.06.2023	from 01.01.2022 to 30.06.2022	zmiana r/r
	PLN		EUR		
Net revenue from sales of products, goods and materials	105 475	79 232	22 865	17 066	33%
Profit (loss) from operating activity	4 918	6 885	1 066	1 483	-29%
EBITDA*	6 459	8 007	1 400	1 725	-19%
Gross profit (loss)	5 123	7 061	1 111	1 521	-27%
Net profit (loss)	4 225	5 637	916	1 214	-25%
Net inflows from operational activities	3 687,53	3 196,44	799	688	15%
Net inflows from investment activities	-7 894	-11 454	-1 711	-2 467	-31%

Net inflows from financial activities	5 401	7 859	1 171	1 693	-31%
Net inflows – total	1 194	-398	259	-86	-400%

*EBITDA calculated as operating profit increased by depreciation

2. INFORMATION ABOUT THE COMPANY AND THE CAPITAL GROUP

Spyrosoft S.A. ("Company", "Issuer") is a joint-stock company with its registered office in Wrocław at pl. Nowy Targ 28, 50-141 Wroclaw. The Issuer is a Polish, international technology company dealing with the production of custom software for industries that are developing dynamically, such as automotive, finance, geospatial information, as well as industry 4.0.

The Issuer creates a capital group which includes SpyroSoft S.A. as the parent entity and 14 entities subject to consolidation, operating under the name:

- Spyrosoft Solutions S.A. based in Wrocław
- GOD Nearshore SE Europejski Spółka Akcyjna Oddział w Polsce with its registered office in Wrocław
- Spyrosoft Ltd based in Dorset, UK
- Unravel S.A. based in Wrocław
- Spyrosoft Solutions d.o.o. based in Zagreb, Croatia
- Spyrosoft Solutions GmbH with its registered office in Stuttgart, Germany
- Spyrosoft Solutions S.R.L. based in Timisoara, Romania
- Spyrosoft Synergy S.A. based in Szczecin
- Spyrosoft eCommerce S.A. based in Wrocław
- Spyrosoft Connect S.A. based in Wrocław
- Better Software Group based in Wrocław
- Better Soft Services based in Wrocław
- Better Software Norge AS based in Bergen, Norway
- Spyrosoft India Private Limited based in Chennai, India

as well as other entities not subject to consolidation.

The Spyrosoft Group operates internationally, and its clients come mainly from Great Britain, Germany, the USA and Scandinavia. The Group, in addition to its presence in six Polish locations (Wrocław, Kraków, Warsaw, Białystok, Szczecin, Łódź), also has its offices and development centers outside Poland (Croatia, Romania, Argentina, India), which allows for increasing the availability of services offered to foreign clients.

3. GENERAL CHARACTERISTICS OF THE ACTIVITIES OF THE COMPANY & THE CAPITAL GROUP

Spyrosoft is a company founded in 2016 in Wrocław, Poland, operating in the IT industry. It produces software. Spyrosoft offers comprehensive solutions in scope of the software development - from embedded solutions to high-level systems based on public clouds. Spyrosoft offers comprehensive project management in scope of which the specialists manage projects and related requirements, design the architecture as well as write and develop the programming layer.

Spyrosoft renders programming services tailored to client needs and individual requirements. The company supports clients from the moment of a product concept and technology selection, through the development of solution architecture and its implementation, ending with maintenance and development works. Spyrosoft cooperates mainly with clients representing the following industries: finance, automotive, industry 4.0, medicine, HR, geospatial services and robotics. Thanks to the knowledge of the industries and specific requirements, a client is provided not only with the solution itself, but also with consulting services in the scope of selection of the IT solutions suited to needs and regulations of a particular industry.

Spyrosoft Capital Group offers the following services:

- **Business and Product Design** – designing digital products and services, prototyping and testing them
- **Technological Consulting** – technological audits, estimation of project costs, development of digital strategies, automation of software development processes, as well as consultancy in the use of public clouds
- **Enterprise Software** – software development in the areas of backend and frontend, mobile applications, data architecture
- **Embedded Software** – development of devices and software for their automation, creating communication solutions, applications for embedded devices
- **Artificial Intelligence and Machine Learning** – using AI and ML technologies in the designed digital solutions together with consultations regarding their functioning
- **Cloud Solutions** – migration to the cloud, cost optimization and delivery of software in the cloud
- **Optimization** – automation of software development, delivery and testing
- **Managed Services** – audits and acquisitions of IT systems, support and maintenance of operating systems, management and maintenance of servers, infrastructure optimization, data security
- **Cybersecurity –** consulting, penetration testing, integration of security tests with the existing software development process, defensive cybersecurity
- **Salesforce –** implementation of Sales Cloud, Commerce Cloud, Service Cloud modules, development of dedicated applications, pre- and post-implementation audits
- **HMI (Human Machine Interface) –** designing and implementing solutions for user interaction with the device
- **E-commerce platforms –** development and implementation of online stores based on Magento and Shopware platforms
- **Data and Business Intelligence –** software for data integration and processing, data warehouses, data mining, data analytics and reporting

Dedicated services provided by the Spyrosoft Group of Companies are offered to the following industries:

- **Automotive**

As part of services for the automotive industry, Spyrosoft offers the production of embedded software as well as its integration and validation in accordance with the requirements of the A-Spice standards applicable within the industry. The offer for the automotive industry also includes the design and implementation of processes related to Functional Safety.

- **Financial Services**

Spyrosoft designs systems that comprehensively support loan processes and debt management systems in financial institutions. The Groups offer also includes the design of solutions in the area of digital banking and for the fintech sector. In addition, Spyrosoft offers the production of software supporting the processing and analysis of financial data.

- **Industry 4.0**

The Spyrosoft Group offer for enterprises from the industrial sector focuses on the automation and communication of industrial devices, as well as the provision of enterprise system solutions that allow the exchange of data between devices and the support of industrial equipment fleet management processes.

- **Media**

Spyrosoft provides dedicated, multi-platform applications and services for the integration and implementation of digital products, as well as technological consulting for the media and entertainment industry.

- **Robotics**

Spyrosoft experts provide comprehensive services related to the design and implementation of software for autonomous robots, using the latest available technologies (artificial intelligence, computer vision, public clouds, etc.)

- **Geospatial Services**

Spyrosoft creates software for the comprehensive processing of spatial data. It offers solutions in the field of spatial data storage and its intelligent analysis. It also designs enterprise systems that enable the use and management of geospatial information.

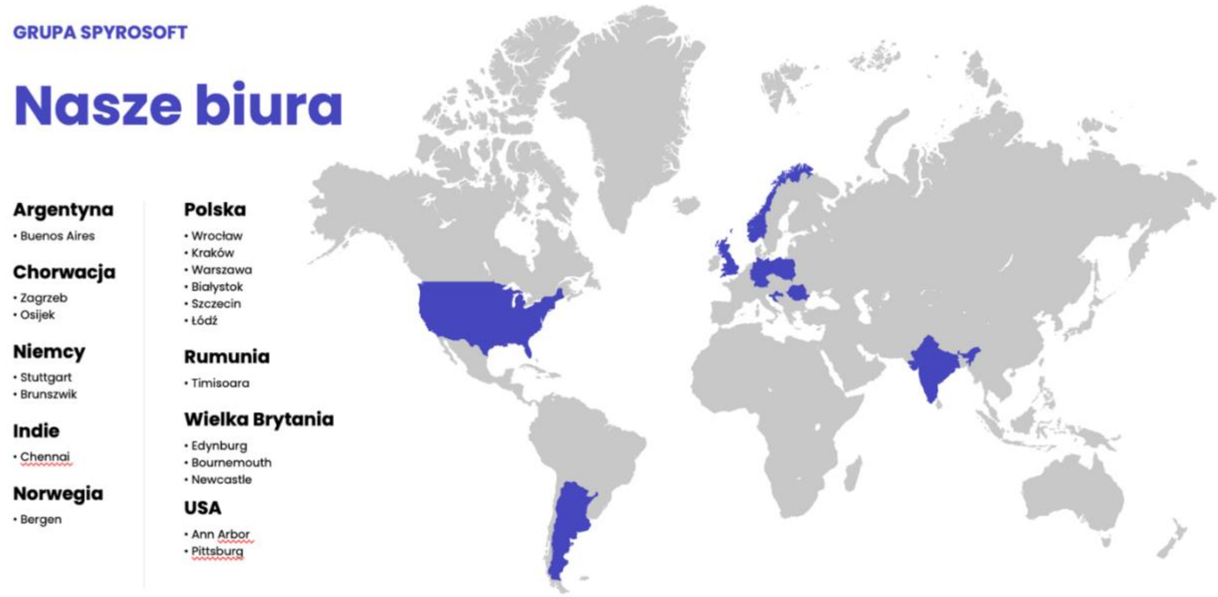
- **HR and Education**

Spyrosoft provides solutions that automate processes related to human resource management. The Group's offer includes the design of temporary work systems, systems for managing remuneration and benefits, as well as educational systems.

- **Healthcare & Life Sciences**

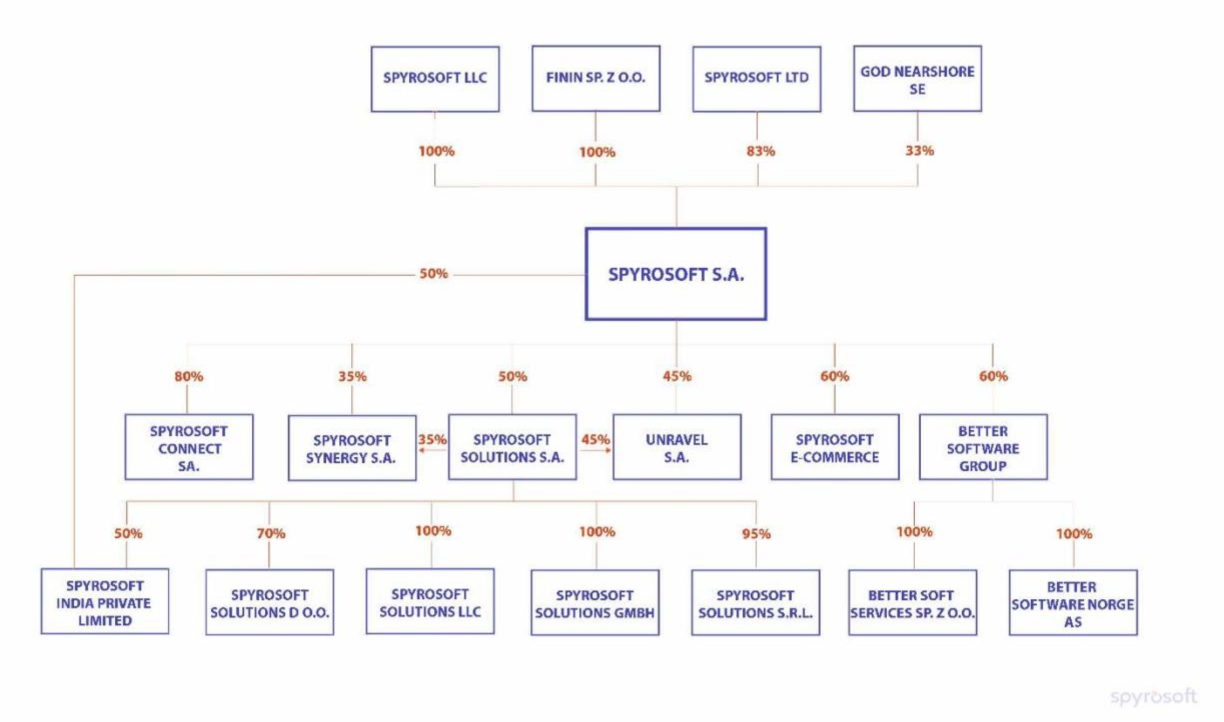
Spyrosoft Group provides embedded software for medical devices, designs their communication and implements advanced algorithms to support accurate diagnostics performed by medical devices. In addition, it offers the design of enterprise systems - supporting the management of a medical enterprise, patient care or monitoring the operation of medical devices.

Spyrosoft Group conducts international activities, with particular emphasis on the United Kingdom, Germany, Scandinavia, and the USA. In addition to its presence in six Polish locations (Wrocław, Kraków, Warszawa, Białystok, Szczecin and Łódź), the Group also has offices outside Poland, ensuring its services are available to international clients.



4. STRUCTURE OF THE CAPITAL GROUP OF THE ISSUER

As at 30.06.2023, the structure of the Spyrosoft Capital Group is as follows:



As at June 30, 2023, the Spyrosoft S.A. capital group apart from the parent company, the following entities are included:

Entity	Country	Share in the capital	Relationship
Spyrosoft Solutions S.A.	Poland	50,0%	direct
Spyrosoft LTD	UK	83,3%	direct
GOD Nearshore SE	Germany	33,0%	indirect

Unravel S.A.	Poland	67,5%	45% indirect and 22,5% indirect
Spyrosoft Solutions doo	Croatia	35,0%	indirect
Spyrosoft Solutions LLC	USA	50,0%	indirect
Spyrosoft Solutions GMBH	Germany	50,0%	indirect
Spyrosoft LLC	USA	100,0%	direct
Spyrosoft Solutions S.R.L.	Romania	47,5%	indirect
Spyrosoft Ecommerce S.A.	Poland	60,0%	direct
Better Software Group S.A.	Poland	60,0%	direct
Better Soft Services Sp. z o.o.	Poland	60,0%	indirect
Better Software Norge AS	Norway	60,0%	indirect
Spyrosoft Connect S.A.	Poland	80,0%	direct
Spyrosoft Synergy S.A.	Poland	52,5%	35% direct and 17.5% indirect
Spyrosoft India Private Ltd	India	75,0%	50% direct and 25% indirect
Finin Sp. z o.o.	Poland	100%	direct

With the exception of an insignificant change in the share in the subsidiary Spyrosoft LTD from 85.75% to 83.30% of the share capital resulting from the acquisition of shares in this company by the management staff, there were no other changes in the organization of the Spyrosoft Capital Group in 2023.

As at 30.06.2023, the degree of the parent company's relationship with other entities of the capital group and the adopted method of including the entity in consolidation is as follows:

Entity	Status	Consolidation method
Spyrosoft Solutions S.A.	subsidiary	full consolidation
Spyrosoft Ltd	subsidiary	full consolidation
GOD Nearshore SE	associate	consolidation by means of equity
Unravel S.A.	subsidiary	full consolidation
Spyrosoft Synergy S.A.	subsidiary	full consolidation
Spyrosoft Solutions d.o.o.	subsidiary	full consolidation
Spyrosoft Solutions LLC	subsidiary	excluded from consolidation due to irrelevance
Spyrosoft Solutions GmbH	subsidiary	full consolidation
Spyrosoft LLC	subsidiary	excluded from consolidation due to irrelevance
Spyrosoft eCommerce S.A.	subsidiary	full consolidation
Spyrosoft Solutions S.R.L.	subsidiary	full consolidation
Better Software Group S.A.	subsidiary	full consolidation
Better Software Services Sp. z o.o.	subsidiary	full consolidation
Better Software Norge AS	subsidiary	full consolidation
Spyrosoft India Private Limited	subsidiary	unit has not yet begun operations
Spyrosoft Connect S.A.	subsidiary	full consolidation
Finin Sp. z o.o.	subsidiary	excluded from consolidation due to irrelevance

All entities, except for Finin Sp. z o.o., run software related activities. Finin Sp. z o.o. operates in the field of accounting services and tax advisory.

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5. BRIEF DESCRIPTION OF THE ISSUER'S SIGNIFICANT ACHIEVEMENTS OR FAILURES IN THE PERIOD COVERED BY THE REPORT, WITH A LIST OF MAJOR RELATED EVENTS

In the first half of 2023, the consolidated revenues of the Spyrosoft Group amounted to PLN 205 million, which is an increase of 47% compared to the same period of the previous year. The consolidated EBITDA value (PLN 20.5 million) decreased by 8% compared to the comparative period, and the EBITDA margin amounted to 10%.

In the first six months of this year, the Spyrosoft Group acquired a total of 42 new clients. New clients were recorded in all companies belonging to the Group. At the end of June this year Spyrosoft Group provided services to 150 clients. It should be noted that client churn occurs in the segment of short-term and low-volume projects. However, although this does affect the total number of clients in the portfolio, it has no significant impact on the revenue generated.

The Spyrosoft Group's revenue structure by geography remains unchanged - the leading markets remain the UK (30%) and the DACH region (27%), followed by Poland (15%), the United States (14%) and Scandinavia (7%) . The structure of revenues recognized from the point of view of the industries served by the Spyrosoft Group has also not changed significantly.

In the first half of this year, the Group increased its number by a total of 105 people. In Q2 2023, the number of Spyrosoft Group collaborators grew slower than in previous periods, at the end of June 2023 it amounted to 1,515 people, which is an increase of 22 compared to Q1.

Referring the Group's financial results to the assumptions adopted in the "Spyrosoft Group Strategy for 2022-2026", attention should be paid to the revenue growth rate (+47%), which in the Management Board's view constitutes a key parameter determining the Group's development pace, and which was achieved despite the economic slowdown. In the first half of 2023, the revenue growth rate was maintained above the assumptions adopted in the strategy (organic average annual growth of 33%, from 25% to 35% per year). This reflects further expansion of the scale of the Spyrosoft Group's operations, which, in the opinion of the Management Board, is a priority at the current stage of the Company's development.

In the previous two quarters, the Group continued investments related to its development. Incurring this type of expenditure, combined with weaker demand for IT services resulting from the global economic slowdown, resulted in lower than expected profitability at the EBITDA level (in accordance with the Strategy - a range of 11%-14%).

The following factors had a negative impact on the EBITDA result:

- increase in the number of employees temporarily not assigned to the project. Historically, the Spyrosoft Group has maintained a low share of the so-called "benches" (2%), currently, due to reduced demand for IT services, the share of "benches" has increased to 6%. However, the Management Board does not change its employment strategy, keeping in mind both the Group's image as an employer and the necessity to ensure that the Group remains prepared for the implementation of future projects.
- strengthening of the zloty exchange rate in the second quarter of 2023. The group operates on international markets and approximately 85% of its revenues come from abroad.
- slowdown in price increases for clients - during the economic slowdown, our partners are less willing to accept increases in prices of our services.

Despite the global economic slowdown, the Spyrosoft Group continues strategic investments and development in new areas despite challenging economic conditions and a temporary decline in profitability.

Looking at the prospects for the subsequent quarters of 2023, we expect the business situation to stabilize at the current level and we expect that it will change as the economic situation improves on the Group's key sales markets.

6. OVERVIEW OF THE FINANCIAL RESULTS FOR THE FIRST HALF OF 2023

Capital Group's main sales markets for the first half of 2023:

Country	Revenue share
UK	30%
DACH	27%
USA	14%
Poland	15%
Norway	4%
Denmark	3%
Other	7%

Capital Group's revenue structure of individual units for the first half of 2023:

Business Unit	Revenue share
Automotive	25%
Geospatial	15%
Media	14%
Financial services	14%
HR and Education	7%
Industry 4.0	6%
Specialized services	7%
Connectivity and automation	4%
Healthcare	2%
Robotics	2%
Other	4%

The share of revenues from the 10 largest clients in the total revenues of the Capital Group in the first half of 2023 was 46%.

In the first two quarters of 2023, the share of revenues from the following recipients exceeded 10% of the total sales revenues of the Capital Group:

Entity	Revenue share
Magna Electronics Europe GmbH & Co. OHG	12%

This entity is not related to the Issuer or the Issuer's management personnel.

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Commentary on the consolidated financial results achieved by the Spyrosoft Capital Group in the first half of 2023.

Consolidated revenues of the Spyrosoft S.A. Capital Group in the first half of 2023 amounted to PLN 205 million, 47% more than in the same period of the previous year. The increase in revenues is the result of the gradual increase in the scale of the Group's operations.

Consolidated cost of products and services sold of the Spyrosoft S.A. Capital Group in H1 2023 amounted to PLN 140 million and was 53% higher than last year. The faster growth rate of costs in relation to revenues was influenced primarily by the so-called "bench", which is responsible for approximately 6% of direct costs.

Gross profit on sales reached PLN 65 million, which is a 34% better result compared to H1 2022. Gross margin on sales amounted to 31.7%, which means a YOY decrease of 3.1%. In addition to the increase in the number of employees not involved in projects, the lower rate of cost growth in relation to revenues was influenced by the weakening of the PLN exchange rate against EUR, GBP and USD in the period under review, which caused the loss the loss of over 1.4% of the margin.

Consolidated general management costs of the Spyrosoft S.A. Capital Group in H1 2023 amounted to PLN 48.4 million and was 61% higher than the Group's general management costs in H1 2022. Higher growth rate of general management costs compared to the pace of increasing revenues in the first half of this year, like the first quarter of 2023, is mainly related to the costs of human resources management (cost of linear management structure), operations, administration (company offices in locations in Poland and abroad) and IT.

Consolidated operating profit for the period covered by this report decreased by 15% YOY to PLN 15.3 million. The operating margin reached 7.5%, which means a decrease of 5.4% compared to the first half of the previous financial year.

Net profit of the parent entity of the Spyrosoft S.A. Capital Group in H1 2023 amounted to PLN 7.7 million, which means a decrease of 29% YOY. The net margin amounted to 3.7% and was lower by 4% compared to the same period of 2022.

The balance sheet total as at June 30, 2023 amounted to PLN 179.5 million and was 28% higher than the balance sheet total as at June 30, 2022. The increase in assets was influenced, among others, by an increase in cash to PLN 38 million. Trade receivables increased by 14% YOY to PLN 61 million. In the same period, short-term liabilities increased by 31% YOY, to PLN 66 million, including trade liabilities of PLN 26.6 million.

The Group's equity increased as of June 30, 2023 by 53% compared to the data as of June 30, 2022 and amounted to PLN 95.6 million.

Commentary on the standalone financial results achieved in the first half of 2023

Spyrosoft S.A. achieved revenues of PLN 105.5 million in the first half of 2023, which is a result 33% higher than last year. The increase in revenues results from expanding the scope of cooperation with current clients and acquiring new ones, serviced by the growing Spyrosoft team.

The cost of products and services sold in January 2023 amounted to PLN 70.4 million, noting an increase of 32% compared to the same period in 2022.

The company achieved gross profit on sales of PLN 35 million. It was 36% higher than the gross profit on sales in the previous year. The gross margin on sales was 33.3%, i.e. it increased by 0.7% YOY. Gradually increasing rates for clients allowed us to reduce the impact of the higher cost of employees not involved in projects and unfavorable exchange rate changes on the margins.

In the first 6 months of 2023, there was an increase in general management costs. It increased by 61% YOY to PLN 30 million. An increase in general management costs throughout the half-year was, similarly to the first quarter of the year, caused primarily by increased costs of human resources management (cost of linear management structure), as well as costs related to operations and administration.

Operating profit decreased in the first half of 2023 by 29% compared to the same period of the previous year to PLN 4.9 million. The margin on operating activities reached 4.7% and was lower by 4% YOY. The decrease in the margin was caused by the increase in general and administrative costs described above.

Net profit amounted to PLN 4.2 million, which means a decrease of 25% compared to the previous year. The increase in the result was influenced by the dividend from an affiliated entity in the amount of PLN 1.47 million. The net margin reached 4%, so it was 3.1% lower compared to the result in the same period of the previous year.

The balance sheet total as at June 30, 2023 amounted to PLN 86 million and was higher by PLN 14.3 million (20%) than the total as at June 30, 2022. Short-term receivables increased by PLN 4.6 million YOY to PLN 38.8 million. Meanwhile, short-term liabilities increased by 34% compared to the previous period to PLN 31.1 million, including an increase in trade liabilities by 28%. In turn, long-term liabilities decreased by 34%.

Equity reached PLN 41.8 million and was 37% higher than as at June 30, 2022.

7. LIST OF FACTORS AND EVENTS, INCLUDING THOSE OF UNUSUAL NATURE, HAVING A SIGNIFICANT IMPACT ON THE CONDENSED FINANCIAL INFORMATION

In the first half of 2023, there were no unusual factors or events that would have a significant impact on the financial results achieved.

8. FINANCIAL RESULT FORECASTS

The Company did not publish forecasts for 2023..

9. THE ISSUER'S SHAREHOLDING STRUCTURE

The shareholding structure of Spyrosoft S.A. is presented below, with a detailed list of shareholders holding at least 5% of the votes at the General Meeting of the Company as of the date of publication of the report:

Shareholder	Number of shares	Share in the share capital	Number of votes	Share in the total number of votes
Konrad Weiske	335 975	30,82%	335 975	30,82%
Dorota Łękawa	279 407	25,63%	279 407	25,63%
Wioletta Bodnaruś	278 300	25,53%	278 300	25,53%
Others	196 412	18,02%	196 412	18,02%
TOTAL	**1 090 094**	**100,00 %**	**1 090 094**	**100,00%**

The structure has not changed since the publication of the previous periodic report.

10. INFORMATION ON SHAREHOLDINGS AND SHARE RIGHTS OF ISSUER'S MANAGEMENT AND SUPERVISORY PERSONNEL

As at the date of the report:

• Konrad Weiske, the President of the Management Board, holds 335,975 shares of the Company with a nominal value of PLN 33,597.50, constituting 30.82% of all shares in the Company, entitling to 30.82% of the total number of votes at the General Meeting of Shareholders of the Company;

• Agnieszka Weiske, wife of Mr. Konrad Weiske, acting as President of the Management Board, holds 42 Company shares with a nominal value of PLN 4.20, constituting <0,01% of all Company shares, entitling to <0,01% of the total number of votes at the General Meeting of Shareholders

• Dorota Łękawa, wife of Mr. Sebastian Łękawa, Member of the Management Board, holds 279,407 shares of the Company with a nominal value of PLN 27,940.70, constituting 25.63% of all shares in the Company, entitling to 25.63% of votes at the General Meeting of Shareholders of the Company;

• Wioletta Bodnaruś, wife of Mr. Wojciech Bodnaruś, Member of the Management Board, holds 278,300 shares of the Company with a nominal value of PLN 27,830, constituting 25.53% of all shares in the Company, entitling to 25.53% of votes at the General Meeting of Shareholders of the Company;

• Sławomir Podolski, a Member of the Management Board, holds 11,430 shares of the Company with a nominal value of PLN 1,143, constituting 1.05% of all shares in the Company, entitling to 1.05% of the total number of votes at the General Meeting of Shareholders of the Company;

• Kamila Podolska, wife of Mr. Sławomir Podolski, Member of the Management Board, holds 38 shares of the Company with a nominal value of PLN 3.80, constituting <0,01% of all shares of the Company, entitling to <0,01% of votes at the General Meeting of Shareholders of the Company.

• Member of the Supervisory Board Andrew Radcliffe holds directly 22,348 Company shares with a nominal value of PLN 2,240.70 and indirectly 59 Company shares with a nominal value of PLN 5.90, constituting a total of 2.06% of all Company shares entitling to 2.06% of the total number of votes holds the General Meeting of the Company;

• Member of the Supervisory Board Tomasz Krześniak holds 16 shares of the Company with a nominal value of PLN 1.60, constituting <0,01% of all shares of the Company entitling to <0,01% of the total number of votes held by the General Meeting of Shareholders of the Company.

Other management and supervisory personnel do not hold the Company's shares.

In the period from the date of publication of the previous periodic report, there were no changes in the structure of share ownership among management and supervisory personnel.

11. COURT PROCEEDINGS

In the period covered by the report, i.e. in the first half of 2023, no significant proceedings were initiated against the Parent Company or its subsidiaries, and no significant proceedings regarding liabilities or receivables were pending.

12. TRANSACTIONS WITH AFFILIATED ENTITIES

In the first half of 2023, no transactions with affiliated entities were concluded on terms other than market conditions both in the Company and in the Capital Group.

13. SURETIES AND GUARANTEES

In the first half of 2023, no credit or loan guarantees were granted or guarantees of significant value were granted in the Company or in the Capital Group.

As at June 30, 2023, the total value of sureties and guarantees granted by companies from the Capital Group is not significant and amounts to PLN 2,610 thousand.

14. FACTORS EXPECTED TO IMPACT RESULTS FOR AT LEAST THE NEXT QUARTER, AS ASSESSED BY THE ISSUER

The Issuer identifies the following factors that may affect its development and financial results:

External factors:

• Macroeconomic and political situation on the markets where the Capital Group operates, in particular related to the global economic crisis;

• High level of inflation in Poland and on global markets, resulting in decreasing investment profitability and a significant cooling of the economy, including a slowdown in the growth rate of demand for IT services;

• Increase in the availability of specialists on the market.

Internal factors:

• Further expansion of the Group in terms of new sales markets and acquisition of software engineers at a pace adapted to market opportunities;

• Slowdown in wage growth in the face of the market situation;

• Reduced staff turnover.

15. DESCRIPTION OF MAIN RISKS AND THREATS

Spyrosoft S.A. Capital Group as the most important risk factors, based on the probability of their occurrence and the expected scale of their negative impact, identifies the risk related to the loss of managerial staff and the loss or failure to acquire qualified employees, the risk of an increase in remuneration costs and the risks related to IT security.

Risk related to the loss of managerial staff and the loss or failure to acquire qualified employees

The Group's operating activity is based on a wide team of specialists - programmers, designers and testers. Due to the fact that there is a shortage of qualified IT specialists on the Polish and foreign labor market, the Group is exposed to the risk of losing, not obtaining or delayed obtaining appropriate human resources. In addition, the Group's operations and its development prospects are largely dependent on the knowledge, experience and qualifications of key employees and associates, in particular members of the Management Board. Key members of the Group's management staff, including members of the Management Board of the parent company, have extensive knowledge of the Group's operations and the market environment in which it operates. In Poland, there is a lot of competition in the field of acquiring qualified personnel, including key managerial staff, which may increase personnel costs and make it difficult to employ and motivate qualified personnel. The Group indicates that it may not be able to prevent the departure of key managers, business partners and clients due to the above factors. The group may also not be able to replace them with people with similar competencies and experience in a timely manner. Due to the fact that the Group offers its clients services related to the comprehensive implementation of IT projects, including the preparation of IT software, work on individual IT projects depends on the complexity of the solution and the comprehensiveness of the service and may take up to several months. Teams are created for the duration of a given IT project. In view of the above, in the event of a sudden need for the implementation of one type of IT projects, the Group may not be able to accept and implement all potential orders and immediately recruit new employees in order to increase the number of implemented projects. In the past, the Group identified such situations, but they were not significant in the scale of its operations. Despite this, the occurrence of such a situation may adversely affect the Group's reputation and the possibility of acquiring new clients in the future. Trust in the Group is one of the key factors determining the interest of clients in maintaining long-term relationships. Factors that may affect the loss of client trust include poor quality and untimely performance of services. With the rapid increase in orders and the lack of qualified staff, the Group may encounter limitations in meeting its obligations on time and in a qualitative manner. To this end, the Group's HR policy provides for increasing the share of employees with extensive experience. The Group tries to recruit as many employees as possible with several years of experience in the profession, who are able to independently and effectively manage teams of programmers, therefore, in the Group's employee structures, approx. 50% of employees have over 4 years of experience in the industry in which the Group operates, while approx. 25% of the Group's employees are people with over 2 years of experience. In addition, the Group's significant competition on the labor market are international, prestigious holding companies offering high salaries. Limiting the availability of human resources may lead to a reduction in the Group's development potential and to a reduction in projected cash flows. In addition, there is a risk related to the implementation of the projects themselves if one of the key members of the technical team is unable to participate in the work for some time. Failure to deliver and implement solutions on time may expose the Group to additional costs related to contractual penalties or damages. The Group tries to prevent the materialization of this risk by monitoring the labor market on an ongoing basis and adapting to the prevailing trends, including the remuneration offered. For this purpose, payroll reports are prepared, as well as constantly monitored employees' non-salary expectations and their analysis in terms of market trends. In addition, the Group undertakes a number of activities aimed at increasing the satisfaction of employees and associates. The package of benefits received includes, among others, such elements as: co-financing of private health care and sports activities, training budget and group insurance. Despite the actions implemented by the Group, however, it cannot fully exclude the risk of qualified employees leaving, which, combined with difficulties in recruiting replacements, will have a negative impact on the Group's operations, including ensuring the appropriate quality and scope of services, which in turn may have a significant negative impact on its financial situation, development prospects, results or market price of shares. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as medium, because in the Group's opinion, the number of employees and associates per the date of approval of the consolidated financial statements for publication allows for ensuring business continuity even in the event of further deterioration of the position of employers on the labor market in the IT sector. In addition, the increase in demand for employees from the IT sector is strongly correlated with the increase in demand for the Group's services, which extends the possibility of managing the risk in question in a cost-intensive manner (for example, by quickly adjusting salaries to changes in the labor market). The significance of this risk factor is assessed by the Group as high.

The risk of an increase in remuneration costs

The main cost items in the Group's operations are salaries and external services (mainly programming). With the aim of employing the best specialists and keeping them on the market, where demand still outweighs supply, the Group takes into account the increase in the costs of employees and associates in the current and subsequent financial years. The costs of salaries and external services have been a significant value of all operating costs of the Group for years. The Group is therefore particularly vulnerable to the risk of an increase in remuneration costs. Of key importance for the results is the maintenance of appropriate, specialized staff and maintaining cooperation with a team of highly qualified external specialists, which is an essential means to ensure the appropriate quality of services provided, which in turn will affect the sales level, having a direct impact on the Group's financial results. In addition, the said high increase in costs also results from possible changes in legal regulations, in particular those regarding the taxation of civil law contracts, personal income tax and corporate income tax, as well as unification of the amount of health insurance premium and the method of its calculation for entrepreneurs, which may increase salary expectations of the Group's employees and associates. A sharp increase in the cost of salaries with a constant or slight increase in revenues will have a negative impact on the Group's financial situation, development prospects, results or the market price of SpyroSoft S.A. shares. At the same time, the Group must constantly offer a competitive level of remuneration on the labor market in order to maintain the possibility of quickly and efficiently acquiring new human capital. Additional factors that increase the pressure on wage growth are international, prestigious holding companies offering high salaries, which are a significant competition for the Group on the labor market. In addition, the increase in salaries is influenced by the increase in demand for IT services and the process of consolidation of smaller entities by leaders in the IT industry. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as low, although the amount of remuneration remains the main motivating force for a possible change of employer, the importance of the brand and implemented projects partially mitigate the size of this risk, and the weakening trend of increasing salaries in the industry additionally lowers them. Therefore, the Group assesses the significance of this risk factor as low.

Risk related to failure to implement the Group's development strategy

The Group's development strategy is described in the General outline of operations section. The main goals of the Group include: concentration of activities in industries in which the Group has specialization and the highest level of knowledge, i.e.: finance, GIS, media & entertainment, employer experience, education, IOT & Industry 4.0, development on foreign markets, increasing sales for currently served entities, as well as acquiring new contractors and acquiring , development and retention of talented employees. However, due to events beyond the Group's control, especially of a legal, economic or social nature, the Group may have difficulties in achieving its goals and fulfilling its strategy, or fail to implement it at all. It cannot be ruled out that as a result of changes in the external environment, the Group will have to adapt or change its goals and strategy. A similar situation may occur if the costs of implementing the strategy exceed the planned expenditures, for example: in connection with the need to start cooperation with additional people, economic changes causing a significant increase in operating costs, or failures and sudden events resulting in the need to purchase new devices. The indicated situations may adversely affect the implementation of the strategy by the Group and result in the achievement of smaller benefits than originally assumed. Further difficulties in the implementation of the Company's strategy may be related to such circumstances as the lack of interest in the Group's products on the part of business clients with high revenue potential, with particular emphasis on entities operating in the markets of highly developed countries, such as the DACH countries, Great Britain or the USA, low clients from the services provided by the Group, insufficient adjustment of the services provided to the needs of clients, no expansion of the portfolio, no increase in market share in selected countries. The occurrence of even one of the above factors may cause difficulties in implementing the Group's strategy, which in turn may have a significant negative impact on the Group's financial situation, development prospects, results or the market price of SpyroSoft S.A. shares. Difficulties in the implementation of the Company's strategy may also result from legislative changes and difficulties related to changing the economic policy in the area of financing innovative companies, e.g. from the technology industry, as a result of which the Company will be forced to change the structure of financing its operations, which may delay the implementation of further projects by the Company. Considering the above, there is a risk that the Company's strategy will not be implemented at all or to a lesser extent than expected, with a significant delay or with unsatisfactory results. If the Company encounters unexpected barriers during the implementation of the developed strategy, the Company may be forced to change it, withdraw from it or develop a new strategy, which may have a negative impact on its financial results. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of occurrence of this risk as low, as the Group has proven to be highly flexible in its approach to plans and assumptions. Therefore, the Group assesses the significance of this risk factor as low.

Risk related to delays in the production of software and the provision of services

The Group implements complex IT projects, including comprehensive software development services. Software development and software testing is a complex and multi-stage process, depending not only on the human factor and the implementation of subsequent stages of work, but also on technical factors and a sufficient level of financing. In addition, these processes require the greatest expenditure at the beginning of the process, while the revenues from their implementation are obtained by the Group in subsequent periods. Often, starting the next stage of production or testing is possible only after the completion of the previous stage. Therefore, there is a risk of delay at a given stage of production or testing, which may additionally affect the delay in the completion of the entire IT project. Therefore, a prolonged process of developing software or applications or testing may adversely affect the Group's financial situation. Excessive delays in the execution of works may also cause the client to withdraw from the concluded contract, which will have a negative impact on the Group's operating activity and its financial results. Failure to meet the assumed production schedule may delay the completion of a given project, which may have a negative impact on the level of remuneration received for the implementation of an IT project, further cooperation with a given contractor and achievement of the expected financial results by the Group. The majority of projects implemented by the Group are settled based on the T&M model, in which a fixed price for the project is agreed in advance at the stage of contract negotiations, together with a detailed scope and schedule, therefore such situations occurred sporadically in the past and had no significant impact on the Group's operations and financial results. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as low, as it has extensive experience in the industry, enabling effective planning of work, taking into account possible difficulties. Therefore, the Group assesses the significance of this risk factor as low.

Risk of deterioration of the Group's image

The development of the Group's operations depends on the future demand for the services it offers. The Group can support the increase in demand for its services through marketing and image-building activities. The most important indicator of the quality of services offered by the Group is the market opinion about them. As at the date of approval of the consolidated financial statements for publication, the Group has no information about negative information published about it on any of the industry portals on the Internet. However, the Group identifies the risk related to exposure to unfair competition, materializing through attempts to damage the Group's reputation as a result of providing false information on the Group's activities on various channels. Potential pejorative opinions on the Group's operations could adversely affect the future level of demand for the Group's services and the resulting cash flows. In addition, the Group's position as a good employer may suffer, which will limit the availability of qualified staff and increase salary costs. The risk of image deterioration may be associated primarily with untimely or inaccurate implementation of projects entrusted to the Group, hardware and system failures, or the human factor. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as low, because it cares about its image and implements the assumptions of the brand communication strategy using its own activities and PR and IR agencies cooperating with the Group. Therefore, the Group assesses the significance of this risk factor as low.

Risk of losing key clients

The Group continuously conducts activities aimed at diversifying the structure of recipients of its services in accordance with the adopted development strategy. The portfolio of the Group's clients is highly diversified, and the share of the most important client in total revenues does not exceed several percent. In addition, most orders and services provided on their basis (over 90% in value) are permanent. The nature of the services provided by the Group to clients assumes a relatively long notice period for contracts (from 3 to 6 months). In addition, the relatively high demand for professional software development services means that, in the opinion of the Management Board, the Group is not exposed to high risk due to the lack of clients. However, it cannot be ruled out that as a result of actions beyond the Group's control, e.g. due to financial problems of a given client, the number of potential clients will decrease, and the Group will not be able to win new contracts for more than a month. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as medium, because in the history of its operations it has mainly executed long-term contracts and has demonstrated a high level of flexibility in approaching client expectations. However, taking into account the economic downturn and the resulting potential difficulties for existing clients, the Group assesses the significance of this risk factor as medium.

Risk of payment backlogs or insolvency of recipients

The Group may be exposed to a situation where one of the recipients will not be able to settle its liabilities on time. In addition, some clients may not meet their financial obligations due to the Group in accordance with the signed agreements. The described situation may have a negative impact on the Group's liquidity situation, and additionally it will make it necessary to create provisions for overdue receivables. This phenomenon will have a negative impact on the Group's financial result. Moreover, the described situation may concern one of the Group's key clients, which would require termination of the previously signed contract, and consequently a significant reduction in cash flows. Settlement of receivables for services provided by the Group is constantly monitored, and moreover, the fact of knowing the clients causes that all arrears are paid and do not require additional actions aimed at their recovery. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as low, because the Group uses settlement methods that limit the risk of long-term liabilities, and efficient supervision over receivables guarantees the highest level of effectiveness in their enforcement. Therefore, the Group assesses the significance of this risk factor as low.

Risk of failure of a product developed by the Group

The Group's activity, like any other production activity, is subject to the risk of manufacturing a defective product. It cannot be ruled out that in the event of certain design defects, the product developed by the Group will fail. The resulting dysfunction may be so significant that some of the activities undertaken by the Group's employees will have to be interrupted in order to eliminate the failure. There is a risk that as a result of a system failure at one of the contractors, design tasks related to the project currently being implemented for another entity will be neglected. This may lead to a delay in the implementation of a given system and expose the Group to additional delay costs. The Group has not identified such events in the past, moreover, the Company and the Group have insurance policies that cover risks specific to the IT industry, which prevents the consequences of the materialization of this risk category. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as low, because having many years of experience in the industry and cooperating with highly qualified specialists, it produces high-quality software with a low risk of failure. Therefore, the Group assesses the significance of this risk factor as low.

Risks related to intellectual property law

Agreements for the provision of IT services concluded by the Group contain clauses regarding the transfer of part or all of the copyright related to the implementation of a given project to the principal. The Group also allows modification of the work done by third parties. Hereby, there is a risk that the Group's product will go to entities that may compete with the Group. Moreover, it may turn out that the Group's product will serve as the basis for creating a completely new system in another enterprise. The risk presented above is limited by the specification of the system, which includes many details regarding a specific counterparty. However, it cannot be ruled out that some entities with which the Company's clients will cooperate in the future will follow the solutions developed by the Group. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as low, as the Group implements projects with a high degree of product matching to the needs of a specific client, with low possibility of universal application. Therefore, the Group assesses the significance of this risk factor as low.

Risk related to transactions with affiliated entities

Between the entities of the Group, business transactions have been concluded and will be concluded in the future, referred to as transactions with related entities. Transactions with related parties are subject to additional requirements and restrictions from the perspective of tax law, which are also characterized by a significant degree of complexity. In addition, they may be subject to examination by tax authorities, both Polish and foreign - competent for other countries in which the Group operates. In the case of each study, its criterion is the analysis of compliance of financial and non-financial parameters. Transactions with related parties should be concluded on an arm's length basis. To the best of the Group's knowledge, the prices used in intra-group settlements correspond to market prices for this type of transaction. Despite the application of internal rules for determining the terms of transactions between related parties, it cannot be ruled out that the transfer pricing documentation may be questioned by the tax authorities conducting tax inspections in the Group. If domestic or foreign tax authorities successfully challenge the tax interpretation of the economic events that have occurred, through inspections or otherwise, the effective tax rate may increase and the Group may be required to pay additional taxes, penalties and interest, as well as be exposed to legal costs defense in court disputes or concluding a settlement with the relevant tax authority. Each of the above situations may have an adverse effect on the business, operating results and financial condition of the Group. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as low, because all data and financial documentation are subject to periodic audits, so far they have not raised any objections. Therefore, the Group assesses the significance of this risk factor as low.

Risk of growth rate decrease

The Group has been developing dynamically in recent years, however, maintaining this trend and the level of growth requires a significant increase in the level of sales. This is possible only by enlarging the team and, from a certain moment, by making expenditures on marketing activities aimed at promoting the Group and its products among potential clients. At the same time, acquiring qualified sales representatives on the markets where the Group operates and target markets is a time-consuming process and generates high costs. In view of the above, as well as in the face of macroeconomic conditions, in particular high inflation and economic slowdown, the Group may not develop at the assumed rate in the near future. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as medium, as it has proven its flexibility in implementing the adopted budget assumptions, moreover, it has an effective sales team supported by a number of tools that facilitate active participation in the market, but at the same time it has no impact on the macroeconomic situation. Therefore, the Group assesses the significance of this risk factor as medium.

IT security risk

The Group, operating in the programming industry, cannot rule out all kinds of cyberattack attempts aimed at its IT systems and other operating systems. Failure of these systems may prevent the Group from operating effectively and efficiently in the scope of the services provided, as well as cause a temporary disruption or interruption in operation. Restoring the full functionality of such systems may prove impossible, time-consuming or take longer than expected, and may require significant financial outlays. In addition, the Group's technologies and operating systems may be susceptible to damage or disruption caused by, among others, malware, computer virus attacks that take advantage of vulnerabilities in the Group's IT systems, human errors, breaches of security rules, unauthorized access and other similar events. These circumstances may result in interruption of the provision of services by the Group. In the event of the above events, the Group's client service may be disrupted, it may also lead to leakage or other unauthorized access to personal data. Any disruptions in the provision of services by the Group may, in turn, significantly damage its reputation and cause a reduction in the trust of recipients, which in turn may significantly adversely affect its ability to attract and retain clients. In addition, any actual or perceived failure or unsatisfactory client response to service may adversely affect client satisfaction. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as medium, because despite the exercise of the utmost diligence and the employment of professional employees and associates in the Group, protection against professional hacker attacks and, as a consequence, possible system failures is difficult to prevent. The materialization of the risk in question may have an adverse effect on the Group's development prospects, change in business assumptions and strategy adopted by the Group, and, consequently, on the Group's operating results and financial standing. Considering the above, the Group assesses the significance of the above risk as high.

Risk related to the economic situation in the IT industry

The economic situation in the IT industry depends on many economic factors. The level of expenditure of enterprises on IT solutions is particularly important in this case. According to the Report Digitization of the Polish MSME Sector presenting the results of a study conducted by Home.pl, Konfederacja Lewiatan and the Polish branch of Microsoft, the level of investment of micro, small and medium-sized enterprises in solutions from the entire ICT segment (IT segment and telecommunications segment) is mainly caused by adapting the situation of the enterprise to current technical progress, and not the desire to implement modern technologies in order to achieve a competitive advantage. Enterprises relatively more often prefer to invest in fixed assets than in ICT solutions. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as medium, because the strength of technical progress generates a high level of demand for programming services, and the pace of technological progress forces companies to invest in a level that guarantees further growth of the IT industry. Additionally, the Polish market is not the Group's main sales market. Therefore, the Group assesses the significance of this risk factor as medium.

Short-term contracts risk

A characteristic feature of the programming industry is the short-term nature of some contracts and orders with clients, often not exceeding 3-6 months. The Group is unable to ensure that after the execution of an order received from a given client, the same client will be interested in continuing to use the Group's services. The nature of short-term contracts, typical for the IT industry, forces the Group to actively expand its client base. In the absence of an influx of orders from new clients and termination of cooperation with existing clients, these circumstances may have a negative impact on the business, financial situation, development prospects, results of the Company or the market price of shares. The Group minimizes this risk by focusing on ensuring the highest quality of services offered in order to ensure client loyalty and long-term revenues, as well as striving to win contracts that guarantee long-term revenues. In addition, the Group is actively expanding its client base by increasing its involvement in foreign markets. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as medium, because practice shows that initially planned short-term contracts often turn into long-term cooperation, moreover, the Group has a chance to win long-term contracts as well. Therefore, the Group assesses the significance of this risk factor as medium.

Currency risk

The company incurs software development costs in the domestic currency (PLN), however, a significant part of its revenues is generated in foreign currencies. Therefore, a significant risk from the point of view of future cash flows are changes in exchange rates. This applies in particular to the following currency pairs: EUR/PLN, GBP/PLN, and USD/PLN. In addition, an upward trend in the value of revenues earned in foreign currencies is indicated. Considering the above, the Company emphasizes that currency fluctuations may decrease the value of receivables or increase the value of liabilities, resulting in exchange rate differences charging the financial result. There is a risk that in the case of large fluctuations in exchange rates, the revenues from concluded transactions may differ significantly from those assumed. In the case of the appreciation of PLN against EUR, GBP, and USD and the limited possibility of transferring the currency burden to clients, the Company is exposed to a decrease in projected revenues in proportion to the decrease in the exchange rate of currency pairs, and consequently lower profitability. The Company does not hedge against exchange rate fluctuations, but monitors exchange rates in order to allow modifications of product prices in a situation where the exchange rate change is so large that the actual profit does not reach the expected range. In addition, in order to protect against risk materialization, the Company tries to maximize the so-called natural hedging, adjusting the currency of the invested capital to the currencies in which the income is realized. As at the date of approval of the financial statements for publication, the Company does not use financial instruments hedging currency risk. There is no certainty that the methods used by the Company to mitigate the existing currency risk through the use of selected instruments will turn out to be fully effective. As at the date of approval of the financial statements for publication, the Company did not conclude an insurance contract to protect against the materialization of the described risk. Due to the fact that as at the date of approval of the financial statements for publication, the Company is still actively developing its operations, thus it does not identify the exchange rate risk as a significant threat to the level of assumed profitability of operating activities. However, this risk may have an intensified impact along with the development of business activities, including the implementation of key projects. The Company constantly monitors the level of revenues achieved in foreign currencies, and in cases requiring it, the Company will use currency risk management instruments available on the banking market. As at the date of approval of the financial statements for publication, the Company assesses the probability of this risk as medium, because despite the lack of use of financial instruments hedging currency risk, the Company has procedures for monitoring exchange rates and maximizes the so-called natural hedging by adjusting the currency of the invested capital to the currencies in which its revenues are realized. As at the date of approval of the financial statements for publication, the described risk has not materialized in the past. However, the materialization of the risk may result in a decrease in the value of the Company's revenues, which does not threaten the Company's operations, and as a consequence may reduce the financial results achieved. Therefore, the Company assesses the significance of this risk factor as medium.

Risk related to the competitive environment

The market of software and IT solutions is characterized by a very dynamic development and a growing level of competitiveness. The services offered by the Company are among the innovative products, belonging to the so-called advanced technology. A number of entities operating on this market have much more experience and capital resources than the Company. Due to the high dynamics of the market, there is also a risk of the emergence of a new entity whose offer will be more innovative than the Company's offer. Obtaining a competitive advantage is possible through the implementation of innovative, unique solutions that are attractive in terms of use and economy for potential clients. The key aspects related to IT activities are the ability to effectively complete projects, cost optimization (with particular emphasis on human resource cost management), client trust and awareness of the presence of a given company on the market. As at the date of approval of the consolidated financial statements for publication, the Group cannot exclude the risk that in the future it will not be able to respond quickly or effectively to the changing market environment in terms of project implementation time or costs of delivered technological solutions, which may lead to the loss of market position by company. The occurrence of this risk may have a negative impact on the sale of the Company's products and services and, consequently, on its financial results. Currently, due to the size of the enterprise, the range of services offered and the target group of consumers, the Company considers such enterprises as: EPAM, Luxoft, Xebia, Netguru, Intive, Unity Group and other entities involved in the production of software on commission, as direct competition due to the size of the enterprise, the range of services offered and the target group of consumers. The company also sees an indirect threat in outsourcing companies from countries that are former republics of the former USSR, offering the rental of human capital (in the remote work model or directly at the client's). There is a risk that the Company will not be able to effectively and quickly respond to the expectations of clients who may decide to use competitive solutions. In the long run, such a situation may have a negative impact on the Company's sales and financial results. In order to minimize the likelihood of materialization of this risk, the Company actively researches and monitors the software and IT solutions market in order to identify the prevailing quality and price standards for the products supplied, as well as the dates of their delivery by entities competing with the Group. As at the date of approval of the consolidated financial statements for publication, the Group assesses the probability of this risk as medium, because, in particular, on the international arena, there is a high level of highly dispersed competition, while the Group assesses the significance of the above risk as low. As at the date of approval of the consolidated financial statements for publication, the Group sees no threat to its operations from new entities, due to the fact that the scope of the Company's services includes a comprehensive analysis of the client's environment, analysis of the development strategy, detailed design of the client's business processes, which in turn leads to offering a well-adjusted IT solution, implementation, implementation and maintenance of the system in a sufficiently short time and for remuneration appropriate to market standards. At the same time, it cannot be ruled out that a possible future change in business models by entities competing with the Group or changes in the market environment may significantly reduce the Group's market share, which in turn may have a negative impact on the Group's operations, development prospects, financial standing or results.

Risk related to technological changes in the IT industry

The dynamics of the market on which the Group operates makes it necessary to constantly adapt the offer to new technological requirements. The dynamics prevailing on the market of modern IT solutions forces continuous work on the modernization of products, as well as the creation of new IT solutions. The lack of sufficient design facilities may cause the aging of products, and thus weaken the Group's competitive position. It may lead to a decrease in the Group's sales and, consequently, to a decrease in the value of its financial results. The Company cannot fully exclude the risk of such significant technological changes in the software it offers that the Group's competitive position on the market will be weakened. Such a situation may occur when the products offered by the Group, as a result of the introduction of new technological solutions, significantly differ in quality from the products offered by competitors. Actions taken by the Group to counteract this risk focus on maintaining the employment of a permanent group of employees with a high level of competence in the area of technology. In addition, the Group engages additional financial resources in prospective investments regarding innovative projects and IT solutions that may determine the market advantage of a given entity in the future. The significance of the above risk is assessed by the Group as low, because the Company constantly monitors technological trends in the IT industry and, depending on the situation, implements new solutions to new standards on an ongoing basis. In addition, the Company has implemented an internal process of continuous improvement of qualifications of all employees, which allows them to master new technological solutions on an ongoing basis. Therefore, the Group assesses the significance of this risk as medium.

Risk related to the consolidation processes of competitive entities

Consolidation processes in the IT industry lead to the strengthening of the market position of several of the largest entities, which limits the possibilities of other enterprises operating in the market of software and IT solutions. The strongest domestic companies strive to take over smaller companies, especially from the sector of small and medium-sized enterprises, serving niche segments of the IT market. Thanks to this, the largest entities expand their competences or gain access to new groups of recipients. Considering the above, the Group points out that the described phenomenon of consolidation among competitors may contribute to the weakening of the Company's position on both the domestic and international market. This is primarily due to the fact that larger companies operating in the IT industry are, as a rule, more recognizable entities and have a longer history of activity, which can be characterized by a higher level of trust among potential contractors. In addition, as a result of consolidation processes, a greater number of entities competing with the Company may gain access to innovative technological solutions, as a result of which they will be able to provide services at a similar or higher level than the Company's. In addition, as a result of consolidation processes, competitive enterprises may gain access to new distribution channels or new client groups, which will lead to an increase in their sales results and, as a result, to an improvement in their financial situation, which in turn will lead to strengthening their position on the market in relation to the Group. The significance of this risk factor is assessed by the Group as low. The company conducts high-quality service activities, confirmed by the trust of current and existing clients. The risk from potential, new, consolidated entities is limited as a result of continuous specialization and development of the Group within the segment in which it operates. Therefore, the Group assesses the probability of occurrence of this risk as low.

Credit risk

Credit risk is the risk of incurring financial losses as a result of failure by a client or counterparty being a party to a financial instrument to fulfill its contractual obligations. Credit risk is mainly related to the collection of receivables, including loans granted. The Management Board applies a credit policy under which exposure to credit risk is monitored on an ongoing basis. Credit risk management is based on client verification and systematic, weekly analysis of receivables. On this basis, both in the long and short term, decisions are made regarding the shape of the credit policy in a given area or in relation to a given client. The company concludes transactions only with reputable companies with good creditworthiness. Thanks to the above activities, exposure to the risk of uncollectible receivables is insignificant. In the case of loans granted to related entities, credit risk is directly related to the financial situation of these entities, which the Company has a significant impact on and constantly monitors. There is no significant concentration of credit risk in the Company, and the exposure to this risk is defined as low.

Liquidity risk

Financial liquidity risk is the risk of the Company's inability to repay its financial liabilities when they fall due. The Company's management monitors the risk of lack of funds, however, due to its stable financial position, this risk is insignificant. Positive financial results accumulated in supplementary capital result in financial surpluses, and low credit risk is reflected in timely repayments of receivables, thanks to which the Company is not exposed to the risk of delays in the repayment of liabilities, including the repayment of financial liabilities, i.e. loans and credits and leasing.

INFORMATION OF THE MANAGEMENT BOARD REGARDING THE ARMED CONFLICT IN UKRAINE

Spyrosoft S.A. aware of the threats resulting from military operations in Ukraine, has been monitoring the situation on an ongoing basis since the start of hostilities. As a company, we identify potential risks and threats to Spyrosoft's current operations. From the initial analysis of the incoming information, it seems that the greatest threat is the uncertainty regarding the scale and timing of the conflict.

It seems that at the moment the direct threat of military operations on Polish territory is negligible. The type of business conducted by the Company is not exposed to the risk of reducing or interrupting the supply chain. A significant threat is the impact of the war on Poland's macroeconomic situation, GDP, unemployment and inflation. Inflationary pressure and the related potential increase in salaries may affect the assumed financial results.

Another risk factor related to the situation in Ukraine is undoubtedly limited or blocked access to potential employees of Ukrainian nationality. Spyrosoft S.A. implemented the 'Work from Anywhere' program as part of the new remote work policy. It enables complete freedom in choosing the place of work, which is a significant convenience for employees and a significant asset on the labor market. It is also a kind of security in the context of maintaining business continuity.

Due to the ongoing armed conflict, the company undertakes a number of activities aimed at supporting Ukraine. In addition to donating funds to charity, Spyrosoft provides assistance to employees of Ukrainian nationality and conducts information activities among employees related to increasing awareness of the events taking place in Ukraine.

INFORMATION OF THE MANAGEMENT BOARD REGARDING THE GROWTH OF INFLATION

The highest inflation rates in recent years of both Polish and global economy has obviously impacted the company's financial results and operations.
Remuneration and external services constitute the main category of the Issuer's costs, and their increase may lead to a decrease in the Group's profitability. The Management Board closely monitors market trends and strives to cool down the pressure on wage increases, e.g. by introducing salary ranges for individual positions. In addition, actions are taken to increase the prices of services provided in order to maintain the profitability of implemented projects.

Growing inflation also affects the high level of interest rates in the Polish economy, which, on the one hand, generates an increase in the level of operating costs, and on the other hand, reduces the level of investment profitability and has a significant impact on the deterioration of the economic situation in the entire economy. From the company's point of view, this may mean a much slower growth rate of the client portfolio in relation to the adopted assumptions and its operational capabilities.

16. PRINCIPLES OF PREPARING FINANCIAL STATEMENTS

The consolidated interim condensed financial information of the Group has been prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS"), approved by the European Union, effective for annual periods beginning on 1.01.2023.

In the preparation of these consolidated interim condensed financial statements, the same accounting principles and calculation methods were applied as in the preparation of the consolidated financial statements for 2022, no changes in comparative data or corrections of errors were made. However, the method of presenting data has been changed in such a way that starting from 01.01.2023, financial data, including the consolidated financial statements of the Spyrosoft S.A. Capital Group, are presented in PLN thousand. Therefore, the comparative data in this report is also presented in PLN thousand.

17. STATEMENT OF THE MANAGEMENT BOARD

Management Board of Spyrosoft S.A. with its registered office in Wrocław, hereby declares that, to the best knowledge of the Management Board, the consolidated and standalone financial statements for the first half of 2023 and comparable data have been prepared in accordance with the applicable accounting principles and that they reflect in a true, reliable and clear manner the property and financial situation of the Company and the Spyrosoft Capital Group and their financial results.

Management Board of Spyrosoft S.A. declares that the Management Board's Report on the activities of the Spyrosoft Capital Group containing information on the activities of the Parent Company for the first half of 2023 contains a true picture of the development and achievements as well as the situation of the Company and the Capital Group, including a description of the main threats and risks.

Wrocław, 26.09.2023

Konrad Weiske – President of the Management Board

Wojciech Bodnaruś – Member of the Management Board

Sebastian Łękawa – Member of the Management Board

Sławomir Podolski – Member of the Management Board