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ADDITIONAL INFORMATION TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENT OF LSI SOFTWARE GROUP

for the period of 1 January 2016 – 30 September 2016

Growth Rate r/r[1] **16%**		
EBITDA[2] **6,3 m**	EBITDA growth rate r/r[1] **46%**	
CAPEX[3] **3,0 m**	Cash **5,0 m**	Net Profit **3,5 m**

[1] 01.01-30.09.2016 vs 01.01-30.09.2015

[2] EBIT + Amortization

[3] Expenses for the purchase of fixed assets

a. Principles applied for the preparation of the condensed interim consolidated financial statement

i. Basic information

The condensed interim consolidated financial statement for the period of 1 January 2016 – 30 September 2016 has been prepared in accordance with IAS 34.

The financial statement hereof shall also meet the requirements set forth in the Regulation of the Minister of Finance on current and periodic information to be published by the issuers of securities.

The condensed interim consolidated financial statement has been prepared assuming that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of the financial statement hereof, there are no circumstances indicating a threat to business continuation by the Group's companies.

The data have been prepared with consideration of the principles of assets and liabilities valuation and net financial result measurement determined as at balance sheet day, that is as at 30 September 2016.

The accepted accounting principles have been applied in a continuous manner to each period presented in the statement hereof. The financial statements for the period of 1 January 2016 – 30 September 2016 were consolidated in accordance the full method with consideration of required consolidation adjustments except for the financial statement of BluePocket S.A. Due to loss by LSI Software S.A. of an ability to manage the financial and operational policy of this company, BluePocket S.A. was not subject to consolidation. Also the financial statement of LMS Online Sp. z o.o. (due to disposal of shares of this company on 16 June 2015) was not subject to consolidation in 2016.

The consolidated financial statement has been prepared in Polish zlotys (PLN) rounded to the nearest thousand (PLN thousand).

The Capital Group prepares a profit and loss account by function of expense.

This interim condensed consolidated financial statement has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and in accordance with the relevant International Financial Reporting Standards (IFRS) applicable to interim financial reporting, approved by the International Accounting Standards Board (IASB) and the Committee for Interpretation of International Accounting Standards, as adopted by the European Union and applicable as at 30 September 2016

a. Principles applied for the preparation of the condensed interim consolidated financial statement

Comparable financial data for 9 months ended 30 September 2015 have been prepared according to the same principles of financial statements preparation.

In preparing the interim consolidated financial statement, an entity applies the same accounting principles as in the annual consolidated financial statement, with the exception of amendments to standards and new standards and interpretations approved by the European Union, which are effective for reporting periods beginning on or after 1 January 2016:

a) Amendment to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: *Plant production* - effective for reporting periods beginning on or after 1 January 2016

Plants production, now in the range of IAS 41 Agriculture, will be recognized based on the provisions of IAS 16 Property, plant and equipment, i.e. using the cost model (production cost) or the revaluation model. In accordance with IAS 41 all biological assets used in agricultural activity are measured at fair value less estimated sales costs.

b) Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Explanation of the acceptable methods of depreciation (tangible fixed assets and intangible assets) - effective for reporting periods beginning on or after 1 January 2016.

With regard to depreciation of fixed assets it was reminded that the method of depreciation should reflect the mode of consumption by an entity of the economic benefits associated with a given asset. The amendment to IAS 16 underlines, however, that the revenue-based method (write-downs made in proportion to the revenues generated by the entity on the activities, for the performance of which the specific components of fixed assets are used) is not appropriate. The IASB has indicated that the amount of revenue depends on a number of other factors, including such as inflation, which has absolutely nothing to do with the way of consuming economic benefits associated with tangible fixed assets.

With respect to intangible assets (that is within an amendment to IAS 38) it was recognized, however, that in certain circumstances it can be concluded that the use of the depreciation method based on the revenues would be appropriate. Such a situation occurs, if the entity demonstrates that there is a close connection between revenues and consumption of economic benefits arising from the intangible asset and that the given intangible asset is expressed as the right to receive a certain amount of revenues (when the entity reaches a certain amount of revenue, the intangible asset expires) – an example may be the right to extraction of gold until the particular revenue is reached.

a. Principles applied for the preparation of the condensed interim consolidated financial statement

c) Amendment to IFRS 11 Joint Arrangements: Recognition of the shares in the joint operations - effective for reporting periods beginning on or after 1 January 2016

The amendment introduces additional guidelines for the acquisition (takeover) of interests in the joint venture, which is a business combination as defined by IFRS 3.

Thus, IFRS 11 indicates currently that in such a situation, the entity shall (to the extent resulting from its participation in the joint venture), apply the principles under IFRS 3 Business Combinations (as well as other IFRSs not being in contradiction with the guidelines of IFRS 11) and disclose information required in respect of business combinations. Part B of the subject standard provides for more detailed guidance on the recognition of goodwill and impairment tests.

d) Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative - effective for reporting periods beginning on or after 1 January 2016,

The changes aim to encourage entities to use the professional judgment in order to determine what information is subject to disclosure in the financial statements as well as where and in what order to present the disclosures in the financial statement.

e) Amendments to IAS 27 Separate Financial Statements: The equity method in the separate financial statement - effective for reporting periods beginning on or after 1 January 2016.

The amendments relate to the application of the equity method in the separate financial statements. They are aimed at restoring this method as an additional option for accounting the investments in subsidiaries, joint ventures and associated undertakings.

f) Improvements to IFRS (2012-2014) - changes in the procedures for annual amendments to IFRS - effective for reporting periods beginning on or after 1 January 2016.

IFRS 5 Fixed assets Held for Sale and Discontinued Operations - changes in the methods of disposal. The introduction of specific guidelines for the reclassification of an asset (or group of assets held for sale) from held for sale to held for distribution (or vice versa), or in case of discontinuation of their classification as held for distribution. This type of reclassification will not be a change in the plan of sale or distribution, so that the existing requirements concerning the classification, presentation and measurement will not change. Assets that no longer meet the criteria of held for distribution (and do not meet the criteria of held for sale) should follow the same accounting treatment as the assets that are no longer classified as held for sale. It is proposed that amendments apply prospectively.

a. Principles applied for the preparation of the condensed interim consolidated financial statement

IFRS 7 Financial Instruments: Disclosures - servicing contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements. Adding guidelines specifying whether the service contract is a continuation of involvement in transferred asset for the purposes of disclosure required in respect of the transferred assets. Section 42C (c) of IFRS 7 provides that the transfer of agreements in accordance with the service contract does not imply the continuity of the involvement associated with the obligation to disclose information about the transfer.

In practice, however, most of the service contracts contain additional clauses, resulting in maintaining the continuity of involvement in the asset, for example - where the amount and/or the date of payment for services depend on the amount and/or date of receipt of cash inflows. The proposed amendments would help to clarify the issue.

The proposed amendments to IFRS 7 eliminate doubts for considering the requirements for disclosure of offsetting financial assets and liabilities in the condensed interim financial statements. It is proposed to clarify that the disclosure on the offsetting is not required for all interim periods.

IAS 19 Employee Benefits - discount rate: issues in regional markets. It is proposed to introduce amendments to IAS 19 to clarify that the highly rated corporate bonds used to estimate the discount rate of post-employment benefits should be issued in the same currency as the liabilities. The proposed amendments will allow an assessment of the size of the market for such bonds at the level of the currency. The proposals would apply retrospectively.

IAS 34 Interim Financial Reporting - Disclosures "elsewhere in the interim financial report".

It is proposed to clarify whether the information required by IAS 34 is presented within the interim financial report, and not within the interim financial statement. According to the proposal, such information would have to be included in the interim statement by reference to another part of the interim report available to users on the same conditions and at the same time as the interim financial statement.

In 2016, the Group adopted all the new and approved standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee as approved for use in the EU, applicable to its operations and binding in the reporting periods beginning on 1 January 2016. The adoption of these amendments did not result in changes to the Group's accounting policies and presentation of data in the financial statement.

a. Principles applied for the preparation of the condensed interim consolidated financial statement

Standards and interpretations adopted by the IASB have not yet been approved by the EU for application:

a) IFRS 9 "Financial Instruments" (24 February 2015) - effective with regard to reporting periods beginning on or after 1 January 2018

The new standard replaces the guidance set out in IAS 39 Financial Instruments: Recognition and Measurement concerning the classification and measurement of financial assets. Standard eliminates the categories set forth in IAS 39, that is: held to maturity, available for sale and loans and receivables. Upon initial recognition, financial assets will be classified into one of two categories:

- Financial assets measured at amortized cost, or
- Financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two conditions are met: the assets is held within a business model which objective is to hold assets in order to obtain the contractual cash flows; and its contractual terms give rise (on specified dates) to cash flows being solely the payment of principal and interests on outstanding amounts.

Gains and losses on financial assets measured at fair value are recognized in the profit and loss account for the current period, except for a situation where the investment in an equity instrument is not intended for trading. IFRS 9 gives discretion to make an irreversible decision to measure such financial instruments upon initial recognition at fair value through other comprehensive. . Such a choice can be made for each financial instrument separately. The amounts recognized in other comprehensive income cannot be reclassified to profit or loss in future periods.

b) IFRS 14: Rate-regulated activities; balance of deferred items - applicable to reporting periods beginning on or after 1 January 2016

This standard has been published as part of a larger project: Rate-regulate activities, dedicated to the comparability of financial statements of entities operating in areas where prices are regulated by certain regulators or supervisors (depending on the jurisdiction, such areas often include distribution of electricity and heat, sales of electricity and gas, telecommunication services, etc.).

IFRS 14 does not refer to a greater extent to accounting policies for rate-regulated activities, but only sets the rules for recognition of items classified as income or costs which are eligible to be recognized under binding legislation in terms of rates regulation, and which in view of other IFRSs do not meet the conditions for recognition as assets or liabilities. Application of IFRS 14 is allowed if the entity performs rate-regulated activities and in the financial statements prepared in accordance with previously applied accounting principles, recognized the eligible amounts as “balance of deferred items”.

According to the published IFRS 14 such items should however be subject to the presentation in a separate item in the statement of financial position (balance sheet) respectively in assets and liabilities. These items are not subject to division into current and fixed assets and are not referred to as assets or liabilities. Therefore, the "deferred items" recognized within assets are referred to as "deferred items’ debits", while those that are recognized as liabilities - as the " deferred items’ credits".

In the profit and loss account and in the statement of other comprehensive income the entities should demonstrate net changes in "deferred items" respectively in the other comprehensive income and in the profit or loss (or in a separate profit and loss account).

This standard, as the transitional standard - according to the decision of the European Commission, will not be subject to the process of adoption.

c) MSSF 15 „Revenue from contracts with customers” – applicable to reporting periods beginning on or after 1 January 2018

IFRS 15 defines how and when to recognize revenues as well as requires entities applying IFRS to make important disclosures. The standard introduces a unified, principle-based model of five steps that is to be applied to all contracts with customers at revenue recognition.

d) IFRS 16 Leases - effective for reporting periods beginning on or after 1 January 2019

IFRS 16 replaces the hitherto existing solutions in terms of leases covering IAS 17, IFRIC 4, SIC 15 and SIC 27. IFRS introduces one model for the purpose of recognition of the lease by the lessee requiring the recognition of an asset and liability, unless the lease term is 12 months or less and the asset is of a low value. The lessor’s approach remains substantially unchanged in relation to the solutions set forth in IAS 17 - classification of leases as operating or financial is still required.

e) Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in associates and joint ventures: investment units - an exception from consolidation - effective for reporting periods beginning on or after 1 January 2016,

The amendments relate to investment entities: application of the exemption from consolidation. They also introduce clarification with regard to the settlement of investment entities.

f) Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures: The sale or contribution of assets between the investor and its associate or joint venture – postponement of the application for an indefinite term

The amendments relate to the sale or contribution of assets between the investor and its associate or joint venture and explain that the recognition of gain or loss in transactions involving the associate or joint venture depends on whether sold or transferred assets constitute a business venture.

g) Amendments to IAS 12 Income Tax – Recognition of deferred tax assets for unrealized losses – effective for reporting period beginning on or after 1 January 2017

The purpose of the proposed amendments is to clarify that the unrealized losses on debt instruments measured at fair value and, for tax purposes at the acquisition price, may give rise to negative temporary differences.

The proposed amendments will also provide that the carrying amount of an individual asset does not limit the estimates of future taxable income. In addition, in case of comparing the negative temporary differences to the future taxable income, the future taxable income shall not include tax deductions resulting from the reversal of the negative temporary differences.

a. Principles applied for the preparation of the condensed interim consolidated financial statement

h) Amendments to IAS 7 Statement of Cash Flows: The initiative on disclosure - effective for reporting periods beginning on or after 1 January 2017

The change is intended to improve the quality of information on financial activity and liquidity of reporting entity disclosed to users of financial statements. It introduces the following requirements:

- reconciliation in the statement of financial position of opening and closing balances for all items, generating cash flows that qualify as financial activities, with the exception of equity
- disclosure of information on issues facilitating the analysis of liquidity of an entity, such as limitations applied when deciding on the use of cash and cash equivalents.

i)

Explanations to IFRS 15 Revenue from contracts with customers - effective for reporting periods beginning on or after 1 January 2018 year. The amendment clarifies how to:

- identify the performance obligation,
- determine whether an entity operates as the agent or principal under a given contract,
- determine the manner of recognition of revenues from licenses.

j) The amendments introduce two additional exemptions aimed at reducing the costs and complexity for the entities while implementing the standard. Amendments concerning IFRS 2 Share-based payments - effective for reporting periods beginning on or after 1 January 2018. The amendment clarifies how to recognize certain types of share-based payments.

These amendments introduce the requirements for recognition:

- share-based payment transactions accounted for in cash and providing for a condition of achieving by an entity of specific economic results,
- share-based payment transactions settled upon tax deduction,
- changes of share-based payment transactions from settled in cash to settled in equity instruments.

The Group estimates that the above standards, interpretations and amendments to standards would not have a material impact on the financial statements if they were applied by the Group as at the end of the reporting period.

ii. Description of applied accounting principles

LSI Software Capital Group is composed of:

- LSI Software S.A. – dominant entity,
- Softech Sp. z o.o. (Limited Liability Company) – subsidiary undertaking,
- LSI Software s.r.o. incorporated on 13 September 2016 and operating on the territory of the Czech Republic,
- BluePocket S.A. – jointly controlled subsidiary undertaking – in 2015 and during 3 quarters of 2016 BluePocket S.A. was not subject to consolidation due to loss of control over this entity.

Related entities are those with regard to which the Group has the right to manage their financial and operational policy through capital and interpersonal links. Softech Sp. z o.o., LSI Software s.r.o. and LMS Online Sp. z o.o. as subsidiary undertakings are subject to consolidation under the full method as of the date of assumption of the control over them by LSI Software S.A. Cessation of consolidation under the full method shall be effective as of the day on which the control ceases. Due to disposal of 100% shares of LMS Online Sp. z o.o. on 16 June 2016, the subject Company is no longer consolidated.

a. Principles applied for the preparation of the condensed interim consolidated financial statement

Jointly controlled entity is the one with regard to which the Group has no independent power to govern its financial and operating policy through the capital and interpersonal links. Currently, LSI Group classifies BluePocket S.A. as a jointly controlled subsidiary undertaking due to the fact that holds 50% of shares and votes at the General Meeting of this company. Due to resignation on 10 March 2015 of former president of the Management Board of BluePocket S.A. and failure to appoint a new Management Board of this company, by the day of preparation of the report hereof, the Issuer did not receive financial statements of BluePocket S.A. for the years 2014 and 2015 and for three quarters of 2016. At the same time, due to the fact that the meetings of the Supervisory Board are not attended by members appointed by Bastion Venture Fund sp. z o.o. S.K.A. as a Shareholder, LSI Software S.A. is not able to independently appoint the Management Board of BluePocket S.A. which results in the actual lack of the Issuer's ability to govern financial and operating policies of this entity. In 2015 and during three quarters of 2016 BluePocket S.A. has not been consolidated and will not be consolidated until regaining by LSI Software S.A. of the ability to govern the financial and operating policy of this entity.

The cost of acquisition is measured as the fair value of acquired assets, issued equity instruments and liabilities incurred or assumed at the date of exchange, increased by costs directly attributable to the acquisition. Excess of the cost of acquisition over the fair value of a share in the identifiable net assets acquired is recognized as goodwill. The impairment of goodwill shall be recognized in the Group's costs. If the acquisition cost is lower than the fair value of the acquired net assets (goodwill), the difference is recognized directly in a profit and loss account.

Transactions, balances and unrealized gains / losses on transactions between group entities are eliminated with the assumption of the principle of materiality. The accounting principles applied by the Group's entities are standardized with respect to overlapping activities. Cases of differences in accounting principles applied in particular entities under consolidation are eliminated through consolidation adjustments aimed at unifying the principles of valuation of assets and liabilities and determination of the financial result.

Fixed tangible assets

Fixed tangible assets include buildings and structures, including leasehold improvements, machinery and devices, computer equipment, vehicles and other fixed assets.

Buildings and structures (with the exception of leasehold improvements) after initial recognition at fair value are reported at purchase price being the equivalent of the estimated cost, less depreciation and impairment loss. Fixed tangible assets are recognized at the historical purchase price or manufacturing cost less depreciation.

Subsequent expenditures are taken into account at the carrying value (balance sheet value) of particular asset or are recognised as a separate asset in the case of significant differences in periods of useful economic life of the separate parts of an asset. Any other expenditures for repairs and maintenance are recognized in the profit and loss account.

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

Investment property

For the purposes of investment property valuation, the Company applies market price or otherwise determined fair value. In this case, the basis for verification of the value of an investment property is its net realizable (at the balance sheet date) sales price or an expert valuation. The Company allows the valuation of investment properties on its own behalf to establish the market value (fair value) of the property. The basis for determining the market value (fair value) of investment property as at the balance sheet date, may be valid and binding market prices of similar properties with similar location, technical condition, and intended for similar purposes. Whereby the Company should carefully define all the differences between its property and compared properties. If, however, the valued investment property is not marketed and there is no information about the existence of an active market for similar (comparable) property, then its market value may be estimated by an expert. The effects of changes being the result of the revaluation of such property is recognized in accordance with Art. 3 Par. 1 Section 32 of the Accounting Act in other operating income and expenses.

Intangible assets

Intangible assets include acquired property rights used by the entity and the development costs. Other intangible assets are valued at historical purchase price less depreciation and impairment loss. Intangible assets are depreciated on a straight-line basis in the period of estimated useful economic life while the residual value is negligible. The Group does not hold intangible assets with an indefinite useful life.

Interests/non-controlling shares and transactions with shareholders / non-controlling shareholders

Non-controlling interests are the shares of consolidated companies but not held by the Group. Non-controlling shares shall be determined as net value of an affiliated entity's shares attributable to the shareholders from outside the Group as at the day of acquisition. The identified non-controlling interests in net assets of consolidated subsidiaries are recognized separately from the ownership interests of the parent company in these net assets.
Non-controlling interests in net assets include:

(i) the value of non-controlling interest as of the acquisition date calculated in accordance with IFRS 3; and
(ii) changes in equity attributable to non-controlling interest as from the date of the acquisition.

Profit and loss and each component of other comprehensive income are attributed to the owners of the parent entity and non-controlling interests. Total comprehensive income is attributed to owners of the parent entity and non-controlling interests even if the non-controlling interests show a negative value.

Exchange rate differences

Domestic cash shall be recognized at nominal value. Cash items in foreign currency are translated with the use of the closing rate. Non-cash items valued at historical cost expressed in foreign currency are translated using the exchange rate applied on the transaction day while non-cash items valued at fair value expressed in foreign currency are translated using the exchange rates prevailing on the date for which the fair value was determined.

Inventory – Commercial goods

Commercial goods are received into the warehouse at the purchase price. The inventory issue valuation shall be performed with the use of 'first in-first out' principle, which is consistent with the requirements of accounting policy. Inventory at the year-end are valued at purchase prices and verified through physical inventory.

Receivables

Valuation of receivables as at the balance sheet day shall be carried out at the fair value of the payment less write-offs. Write-offs shall also be established with regard to overdue debts and not overdue debts with a significant probability to become bad - at the amount of reliably estimated write-off. Mentioned write-offs are recognized in other operating costs or in financial costs, depending on the types of business transactions, as a result of which this write-offs arose.

a. Principles applied for the preparation of the condensed interim consolidated financial statement

Reserves and funds

Issued capital of the Group is the share capital of LSI Software S.A. and is recognized in nominal value.

The capital of jointly controlled subsidiary undertaking is subject to consolidation exclusions while the current results of these undertakings are reported in the consolidated profit and loss account as share in profit / loss of joint ventures with simultaneous adjustment of the value of investments in jointly controlled entities.

The supplementary capital is created out of (among others):

- share premium,
- redemption of own shares,
- transfers from other reserves.

Previous years' profit (loss)

Result of previous years includes profit / gains (not covered losses) from previous years adjusted for possible effects of fundamental errors, the value of the revaluation of assets (including deferred tax) and reserve capital created from retained earnings.

Provisions for liabilities

Provisions are recognized when with regard to the Group's entities, the obligation (legal or customary) arising from past events have been imposed, and when it is probable that the fulfilment of this obligation will require the outflow of funds which are linked to the economic benefits and when it is possible to reliably estimate the amount of this provision. In case where the time value of money is significant (employee benefits), the amount of reserve is determined by discounting expected future cash flows to present value with the use of a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to a given liability. Provisions for employee benefits (retirement gratuity and jubilee awards) are recognized in operating costs. Other reserves are recognized in other operating expenses or financial costs, depending on the circumstances under which the liability occurred.

a. Principles applied for the preparation of the condensed interim consolidated financial statement

Liabilities

Liabilities (with an exception of financial liabilities) are valued as at the balance sheet day at fair value of the payment due. Finance lease liabilities are determined in the present value of future minimum lease payments.

Revenues

Revenues are inflows of economic benefits for a given period (less applicable taxes) which arose during the performance of ordinary business activities of the Group and which result in an increase in equity, being other increase than a capital increase resulting from payments done by the shareholders.

Sales of goods and products

The amount of revenues resulting from the transactions shall be determined according to fair value of the payment with consideration of discounts and allowances. Revenues are recognized when significant risks and benefits arising from the ownership of the goods and products were transferred to the purchaser and when the amount of revenue can be measured reliably.

Provision of services

Revenues from transactions as at the balance sheet date are recognized on the basis of the degree of completion of the transaction.

Costs

Cost Accounting is carried out by function.

Cost of goods, services and materials sold shall include costs directly associated with them, and a reasonable part of indirect costs (excluding trade within the group).

a. Principles applied for the preparation of the condensed interim consolidated financial statement

Costs are settled on a monthly basis.

Moreover, the Group's financial result shall depend on:

- other operating income and costs indirectly associated with the activity of entities in scope of: profits and losses on disposal of non-financial fixed assets, revaluation of non-financial assets, creation and termination of provisions for future risks, penalties and damages, donations , etc.
- financial revenues and costs due to: dividends, interests, exchange rate differences not associated with business operations, revaluation of investments, profits and losses on investments.

Tax burdens

Gross financial result is adjusted by:

- current liabilities arising from corporate tax,
- deferred income tax assets and reserves.

Deferred income tax is created with regard to the temporary differences between the value of assets and liabilities recognized in the books of account, and their tax value possible to be deducted in future. Deferred tax assets are established with the consideration of the prudence principle that is without taking into account the assets in respect of which there is a low probability of execution. No later than as at the balance sheet date, deferred income tax assets and reserves included in the books of account are verified. Deferred income tax assets are recognized in the long-term prepayments while deferred income tax provisions in provisions for liabilities. Deferred income tax assets and reserves regarding the settlement of equity items are recognized in the result of a current period.

Cash flow

The Group prepares a cash flow statement according to the indirect method.

a. Principles applied for the preparation of the condensed interim consolidated financial statement

Incentive Programme

Not applicable

Profit per share

Profit per share is calculated by dividing net profit for the period attributable to the shareholders of a dominant by weighted average number of issued ordinary shares.

	01-09.2015	01-09.2016
Profit (loss) per share (PLN)	0,70	1,07

Diluted profit per share

Profit per share is calculated by dividing net profit for the period attributable to the shareholders of a dominant by weighted average number of issued ordinary shares adjusted for dilutive effect of all potential ordinary shares.

	01-09.2015	01-09.2016
Diluted profit (loss) per share (PLN)	0,70	1,07

b. Other information

i. Information on significant changes of estimated values

In particular, there were no changes in the applied accounting rules (policies) or with regard to the rules for determining the value of assets and liabilities and measurement of financial result as well as there were no significant changes of estimated values.

ii. Description of significant achievements or failures with the indication of the most important events associated with these achievements or failures

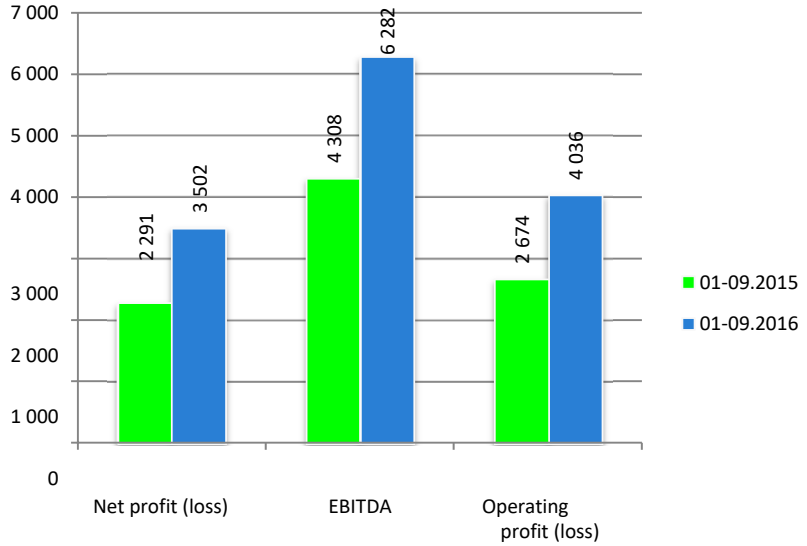
In the third quarter of 2016 the Issuer and its Group achieved a **16%-revenue-growth rate** comparing to the third quarter of 2015, and **53%-net profit-growth rate** after the third quarter of 2016, at a level never before recorded in the history of the Group's activity – that is over **PLN 3 502 thousand**.

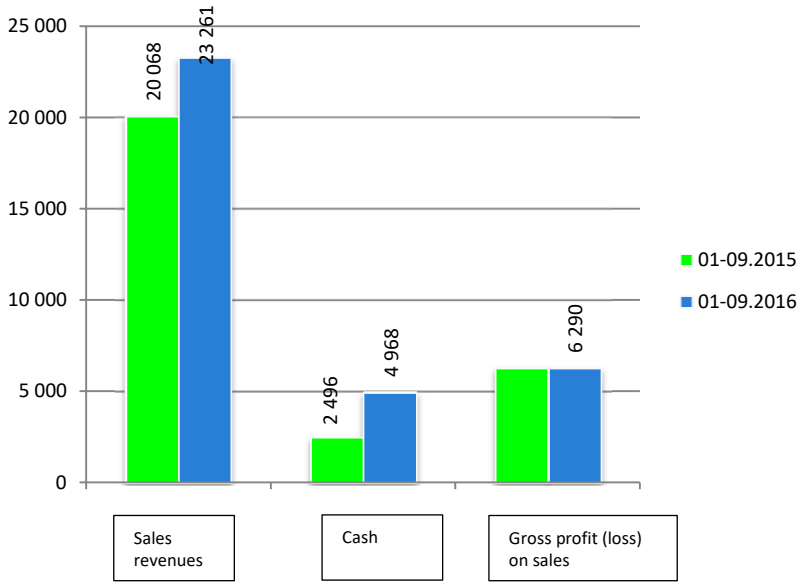
Noteworthy is also **EBITDA growth of 46%** from the level of PLN 4 308 thousand for three quarters of 2015 to **PLN 6 282 thousand** for the corresponding period of 2016. **Profit on operating activities increased by 51%** as compared to three quarters of 2015.

The above financial data, as well as strong non-financial foundations of the operation of the Group being a leader in its business sector, provide a stable basis for further organic growth of both LSI Software S.A. and its subsidiaries.

Additional information important for the financial situation assessment:

- a material, over twofold increase in cash was recorded – from the level of PLN 2 496 thousand at the end of third quarter of **2015 to PLN 4 968 thousand** at the end of September 2016;
- the amount of working capital also increased significantly – from the amount of PLN 4 935 thousand **to PLN 6 413 thousand** which accounts for 30% increase as compared to three quarters of 2015;
- operating profit includes revenue arising from the interim valuation of the property and its revaluation at the amount of **PLN 500 thousand** (incidental event without any impact on liquidity situation of the Group).





b. Other information

Selected data	9 months ended 30 September 2015	9 months ended 30 September 2016	Change
Revenues	20 068	23 261	116%
Gross profit (loss) on sales	6 297	6 290	100%
EBIT	2 674	4 036	151%
EBITDA (amortization + EBIT)	4 308	6 282	146%
Net profit/loss	2 291	3 502	153%
Cash	2 496	4 968	199%

Profitability ratios	9 months ended 30 September 2015	9 months ended 30 September 2016	Change
Gross profit margin on sales	31,4%	27,0%	-4,4 p.p
Profit margin EBITDA	21,5%	27,0%	5,5 p.p
Operating profit margin	13,3%	17,4%	-4,1 p.p
Net profit margin	11,4%	15,1%	-3,7 p.p

The gross profit margin on sales = gross profit / sales revenue EBITDA margin = EBITDA / sales revenue
Operating profit margin = operating profit / sales revenue
Net profit margin = net profit / sales revenues

Liquidity ratios	30 September 2015	30 September 2015	Change y/y
Working capital	4 935	6 413	130%
Current ratio	1,7	1,9	0,2 p.
Quick ratio	1,3	1,5	0,2 p.
Cash ratio	0,4	0,7	0,3 p.

Working capital = current assets (short-term) - Short-term liabilities
Current ratio = Current assets (short-term) / Short term liabilities
Quick ratio = (Current assets - Inventories - Prepayments and accrued income) / Short term liabilities
Cash ratio = Cash and short-term deposits / Short term liabilities

Debt ratios	30 September 2015	30 September 2015	Change y/y
Debt ratio	28,2%	23,3%	-4,9 p.p
Debt/Equity	9,2%	5,1%	-4,1 p.p
Debt / (Debt + Equity)	8,4%	4,9%	-3,5 p.p

The total debt ratio = (long-term liabilities + Short term liabilities) / assets
Debt / Equity = (Interest-bearing bank loans and debt securities + liabilities arising from finance lease) / Equity
Debt / (Debt + Equity) = (Interest-bearing bank loans and debt securities + Liabilities arising from finance leases) / (Interest-bearing bank loans and debt securities + Liabilities arising from financial leasing + Equity)

b. Other information

i. Other information on significant changes to estimated values

1. Changes in fixed assets (according to type) and impairment losses – for the period of 1 January 2016 – 30 September 2016

Fixed assets	31.12.2015	30.09.2016
Fixed tangible assets	**4 725**	**5 142**
Lands, buildings and structures	3 128	3 346
Gross (opening balance)	3 690	3 690
Redemption (opening balance)	485	563
Gross increase – acquisition	0	0
Gross decrease - disposal	0	0
Gross – reclassification to held for sale	0	0
Gross transfer - increase	0	0
Gross transfer - decrease	0	0
Gross revaluation - increase	0	277
Gross revaluation - decrease	0	0
Amortization / Depreciation	77	58
Impairment loss	0	0
Reversal of impairment loss	0	0
Redemption, decrease, disposal	0	0
Redemption, decrease, reclassification to held for sale	0	0
Transfer, redemption, increase	0	0
Transfer, redemption, decrease	0	0
Devices	163	185
Gross (opening balance)	1 291	1 291
Redemption (opening balance)	1 048	1 129
Gross increase – acquisition	0	71
Gross decrease - disposal	0	0
Gross – reclassification to held for sale	0	0
Gross transfer - increase	0	0
Gross transfer - decrease	0	0
Gross revaluation - increase	0	0
Gross revaluation - decrease	0	0
Amortization / Depreciation	80	48
Impairment loss	0	0
Reversal of impairment loss	0	0
Redemption, decrease, disposal	0	0
Redemption, decrease, reclassification to held for sale	0	0
Transfer, redemption, increase	0	0
Transfer, redemption, decrease	0	0

b. Other information

Means of transport	1 360	1 542
Gross (for the period)	3 170	2 867
Redemption (opening balance)	1 698	1 507
Gross increase – acquisition	520	639
Gross decrease - disposal	822	316
Gross – reclassification to held for sale	0	0
Gross transfer - increase	0	0
Gross transfer - decrease	0	0
Gross revaluation - increase	0	0
Gross revaluation - decrease	0	0
Amortization / Depreciation	414	313
Impairment loss	0	0
Reversal of impairment loss	0	0
Redemption, decrease, disposal	0	0
Redemption, decrease, reclassification to held for sale	604	172
Transfer, redemption, increase	0	0
Transfer, redemption, decrease	0	0
Equipment and other fixed assets	74	69
Gross (opening balance)	246	300
Redemption (opening balance)	219	226
Gross increase – acquisition	61	5
Gross decrease - disposal	5	2
Gross – reclassification to held for sale	0	0
Gross transfer - increase	0	0
Gross transfer - decrease	0	0
Gross revaluation - increase	0	0
Gross revaluation - decrease	0	0
Amortization / Depreciation	13	12
Impairment loss	0	0
Reversal of impairment loss	0	0
Redemption, decrease, disposal	0	0
Redemption, decrease, reclassification to held for sale	4	4
Transfer, redemption, increase	0	0
Transfer, redemption, decrease	0	0
Fixed assets under construction	0	0
Gross (opening balance)	0	0
Redemption (opening balance)	0	0
Gross increase – acquisition	0	0
Gross decrease - disposal	0	0
Gross – reclassification to held for sale	0	0
Gross revaluation - increase	0	0
Gross revaluation - decrease	0	0
Amortization / Depreciation	0	0
Impairment loss	0	0
Reversal of impairment loss	0	0
Redemption, decrease, disposal	0	0
Redemption, decrease, reclassification to held for sale	0	0

During three quarters of 2016 there were no impairment write-downs on fixed assets. In connection with the interim valuation of the property and investment property, the revaluation of their value by the total amount of PLN 500 thousand was carried out based on the appraisal prepared on 19 August 2016,.

b. Other information

2. Changes in intangible assets (according to type) and impairment losses – for the period of 1 January 2016 – 30 September 2016

Intangible assets	31.12.2015	30.09.2016
Intangible assets	**6 927**	**8 127**
Software and licenses	0	0
Gross (opening balance)	0	0
Redemption (opening balance)	0	0
Gross increase – acquisition	0	0
Gross decrease - disposal	0	0
Gross – reclassification to held for sale	0	0
Gross revaluation - increase	0	0
Gross revaluation - decrease	0	0
Impairment loss	0	0
Redemption, decrease, disposal	0	0
Redemption, decrease, reclassification to held for sale	0	0
Development works	1 735	3 893
Gross (opening balance)	10 484	12 447
Redemption (opening balance)	8 458	8 916
Gross increase – acquisition	654	0
Gross decrease - disposal	0	0
Gross – reclassification to held for sale	0	0
Gross transfer - increase	0	1 186
Gross transfer - decrease	0	0
Gross revaluation - increase	0	0
Gross revaluation - decrease	0	0
Amortization / Depreciation	945	824
Impairment loss	0	0
Reversal of impairment loss	0	0
Gross decrease - disposal	0	0
Gross – reclassification to held for sale	0	0
Other	5 192	4 234
Gross (opening balance)	3 349	7 714
Redemption (opening balance)	1 647	2 522
Gross increase – acquisition	4 364	30
Gross decrease - disposal	0	0
Gross – reclassification to held for sale	0	0
Gross transfer - increase	0	0
Gross transfer - decrease	0	0
Gross revaluation - increase	0	0
Gross revaluation - decrease	0	0
Amortization / Depreciation	874	988
Impairment loss	0	0
Reversal of impairment loss	0	0
Gross decrease - disposal	0	0
Gross – reclassification to held for sale	0	0

b. Other information

During three quarters of 2016 there were no impairment of intangible assets. Also, there were no liabilities incurred for the purchase of intangible assets.

3. Estimated changes of goodwill

Goodwill	31.12.2015	30.09.2016
Goodwill	4 430	3 427
Gross (opening balance)	0	0
Gross increase – acquisition	0	8
Gross decrease - disposal	1 003	0
Gross revaluation - increase	0	1 000
Gross revaluation - decrease	0	0
Goodwill (closing balance)	**3 427**	**4 435**

The goodwill results from the acquisition of shares in a subsidiary – Softech Sp. z o.o.

As at 30 September 2016 LSI Software S.A. holds 50% of BluePocket S.A. shares acquired for the price of PLN 2 307 thousand. Due to impairment, mentioned shares were revalued and their current book value amounts to PLN 0.

As at balance sheet day, intangible assets do not account for collateral for Group's liabilities.

4. Estimated value of inventory

	31.12.2015	30.09.2016
Inventory	**1 936**	**2 441**
Materials	0	0
Semi-finished products and production in process	0	0
Finished goods	0	0
Goods	1 906	2 311
Advances	30	130

Information concerning impairments of inventory was presented in point xxii.

b. Other information

5. Changes in Accounting Estimates of receivables

Receivables	31.12.2015	30.09.2016
Trade receivables and other receivables	**7 231**	**6 326**
Trade receivables and other receivables from related entities	0	0
gross receivables	0	0
impairment (opening balance)	0	0
impairment, increases	0	0
impairment, decreases	0	0
impairment, use	0	0
Trade receivables and other receivables from other entities	7 231	6 326
gross receivables	9 232	8 087
impairment (opening balance)	1 817	2 001
impairment, increases	190	0
impairment, decreases	6	240
impairment, use	0	0

6. Deferred income tax

Deferred tax	31.12.2015	30.09.2016
Deferred income tax assets	**944**	**823**
Deferred income tax assets (opening balance)	713	944
recognized in profit and loss account (opening balance)	713	944
recognized in equity (opening balance)	0	0
other (opening balance)	0	0
Deferred income tax assets	231	121
increases, through profit and loss account	231	0
increases, through equity	0	0
increases, other	0	0
decreases, through profit and loss account	0	121
decreases, through equity	0	0
decreases, other	0	0

Deferred tax	31.12.2015	30.09.2016
Deferred income tax assets	**944**	**823**
write-down of inventory	5	5
balance sheet valuation (exchange differences)	19	26
write-down of BluePocket shares	438	438
holiday pays	33	0
unpaid benefits and Social Insurance Institution	34	36
write-down of bad debts	86	86
revaluation of inventory	99	93
leasing	96	119
tax loss	10	0
unpaid invoices	20	0
reserves for probable loss	66	19
other	38	1

7. Information on significant changes in provisions for pension and similar benefits

There were no significant changes in provisions for pension and similar benefits .

b. Other information

8. Information on significant changes in other reserves

As at 30 September 2016 the amount of short term reserves consist mainly of deferred revenues associated with the issued advance invoices. The Group does not create provisions for returns and warranty repairs due to the fact that in sales transactions, the guarantee may only be granted by the manufacturer of the goods.

Other reserves	31.12.2015	30.09.2016
Item		
Short-term reserves	2 068	819
Restructuring costs	267	0
Other	1 801	819
Total	**2 068**	819

ii. Conclusion of significant agreements

On 30 September 2016 LSI Software S.A. concluded an agreement with MOSTOSTAL WARSZAWA S.A. The subject agreement regards the development delivery of Electronic Customer Service System within an investment project “The construction of the Water Center in Tychy”. The value of concluded agreement amounts to PLN 900 thousand while the completion of the contract is planned for the end of April 2017.

On 30 June 2016, the Issuer concluded an agreement with Cinema 3D S.A. in Legnica. The agreement covers the development, implementation and maintenance in Cinema 3D S.A. cinema network of POSitive® Show System which is a comprehensive solution for managing the network of entertainment undertakings including cinemas, theaters, stadiums and other facilities of similar purpose. The estimated value of the subject of the agreement defined as the total value of the benefits resulting from the agreement throughout the period of its duration is PLN 3.8 million net. The estimated value of the Agreement, with consideration of future orders made by the Ordering Party (excluding the potential supply of equipment) is PLN 5.1 million net.

As a result of broadening the scope of works associated with the implementation of the agreement of 9 November 2015 concluded with HELIOS S.A. and the expected higher amount of revenue from this contract, the estimated value of the agreement will exceed 10% of the equity of the Issuer and will amount to approx. PLN 2.7 million net. The contract covers the development, implementation and maintenance of POSitive® Show System in HELIOS S.A. cinema network. The agreement was concluded for an indefinite period while the completion of implementation of the system is to take place no later than until February 2017. In the reported period, except for the agreements indicated above, other agreements of lower value or with smaller contractors were concluded.

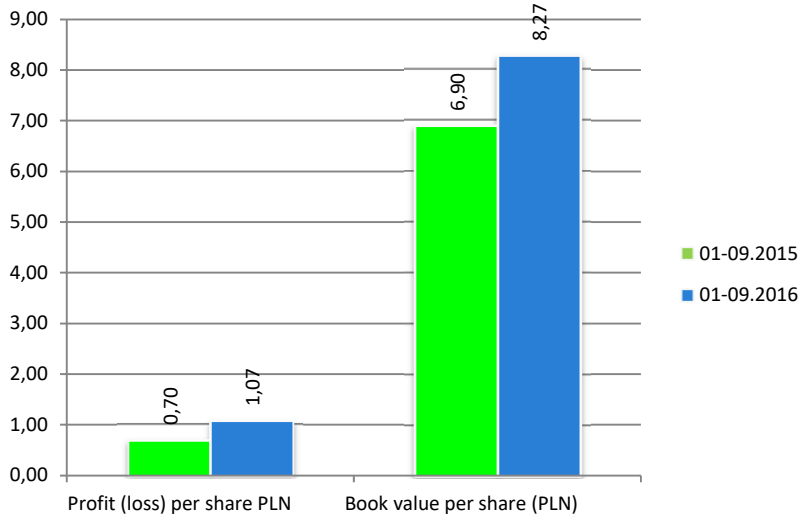
b. Other information

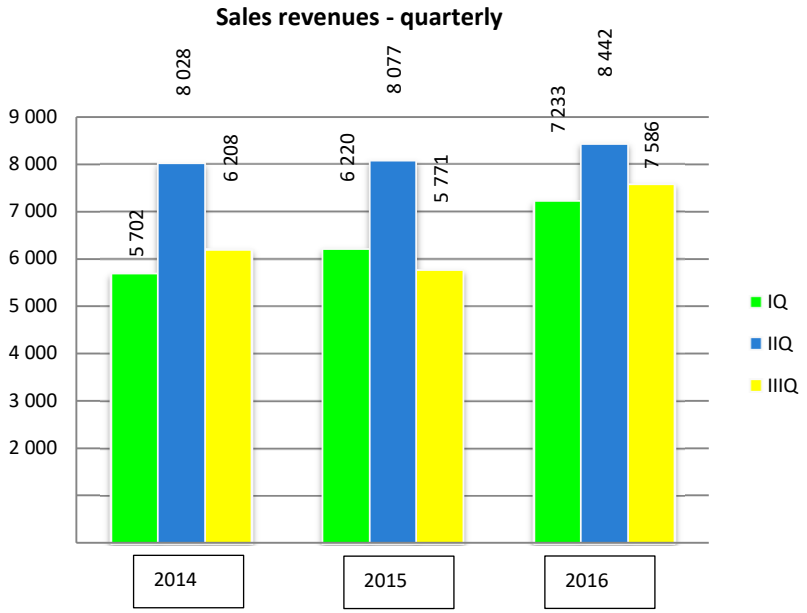
v. Description of factors and events, particularly those of unusual nature, affecting the assets, liabilities, equity, net financial result or cash flow

Due to resignation on 10 March 2015 of former president of the Management Board of BluePocket S.A. and failure to appoint a new Management Board of this company, by the day of preparation of the report hereof, the Issuer did not receive financial statements of BluePocket S.A. for the years 2014 and 2015 and for the first half of 2016. At the same time, due to the fact that the meetings of the Supervisory Board are not attended by members appointed by Bastion Venture Fund sp. z o.o. S.K.A. as a Shareholder, LSI Software S.A. is not able to independently appoint the Management Board of BluePocket S.A. which results in the actual lack of the Issuer's ability to govern financial and operating policies of this entity. In 2015 , the Management Board of LSI Software S.A. tried to reach an agreement on this issue, however has not been successful in appointing new Management Board of BluePocket S.A.

Due to the above, in 2016 BluePocket S.A. will not be consolidated until regaining by LSI Software S.A. of the ability to govern the financial and operating policy of this entity.

As at 10 November 2016, the Issuer holds 50% shares of BluePocket S.A. and 50% of voted at the General Meeting of this company.





b. Other information

vi. Explanations regarding the seasonality of the Group's operations

Business activities of the Capital Group are not of seasonal nature.

vii. Information regarding the issue, redemption and repayment of debt and equity securities

The Management Board of LSI Software S.A., in accordance with the Resolution No 34/2012 of the Ordinary General Meeting of Shareholders of 14 June 2012, on 1 January 2013 commenced the Share Buy-Back Program. Until day of the report hereof preparation, LSI Software S.A. repurchased 33 958 own shares accounting for 1.04% of the share capital and entitling to 33 958 votes at the Ordinary General Meeting of Shareholders. The average purchase price per share amounted to PLN 3.14.

In the period from 9 July 2014 to 25 August 2016 the Company sold the total of 22,500 own shares to the Company's key managers, in accordance with clause 2.1 of the Resolution no 34/2012 on the authorization of Management Board to acquire shares own adopted by the Ordinary General Meeting on 14 June 2012.

As a result of this transaction, the total number of own shares currently held by the Company is 11 458, which represents 0.35% of the share capital and 0.24% of the total number of votes at the General Meeting of the Issuer. Average price of acquired shares was PLN 3.14.

viii. Information regarding the dividend (paid or declared)

In the reporting period the dividend was not paid to the shareholders nor such payment of dividend was declared.

ix. Events, which occurred after balance sheet day

There were no events after balance sheet day which could have a significant impact on the Group's financial situation.

b. Other information

x. Contingent liabilities and assets with the indication of changes to these items

As at the date of the report hereof, neither the dominant company nor the subsidiaries, granted any guarantees for credits or loans or other guarantees which total value would represent the equivalent of least 10% of the equity of the dominant company.

Other contingent liabilities and assets are described in point xviii.

xi. Description of the Issuer's Group with the indication of entities under consolidation

The Composition of LSI Software Group shall be as follows:

- LSI Software S.A., as a dominant entity,
- Softech sp. z o.o., as a subsidiary (LSI Software S.A. holds 100% of this company's shares/100% of votes),
- LSI SOFTWARE s.r.o. as a subsidiary (LSI Software S.A. holds 100% of this company's shares/100% of votes),
- BluePocket S.A., as a subsidiary (LSI Software S.A. holds 50% of this company's shares/50% of votes – purchase price as at balance sheet day: PLN 2 307 thousand). Due to loss by LSI Software S.A. of an ability to manage the financial and operational policy of this company, BluePocket S.A. is not subject to consolidation.

Unconsolidated financial statements of the Group's entities shall be prepared on the basis of Accounting Act and adjusted to the requirements of the consolidated financial statement hereof. The consolidated financial statement shall be prepared in accordance with IFRS/IAS.

b. Other information

xii. The effects of changes in the structure of the company, including mergers, acquisitions or disposals of the issuer's group undertakings, long-term investments, demergers, restructuring and discontinued operations

On 13 September 2016 LSI Software S.A. incorporated a subsidiary in Czech Republic – LSI Software s.r.o. in which holds 100% os shares. On 16 June 2015, LSI Software S.A. sold 100% of LMS Online Sp. z o.o. shares as a consequence of which the company is no longer consolidated. As at 31 December 2014 BluePocket S.A. was consolidated with the use of equity method, but due to loss by LSI Software S.A. of an ability to manage the financial and operational policy of this company, BluePocket S.A. is not subject to consolidation.

xiii. The Management Board's position on the feasibility of achieving the results stated in the financial forecasts published earlier for a given year in view of the financial results presented in the quarterly report in relation to the projected results

The Management Board of LSI Software S.A. did not publish the forecasts for the year 2016.

xiv. The shareholders holding, directly or indirectly (through subsidiary undertakings) 5% or more of the total vote at the issuer's general meeting of shareholders as at the date of the report

As at 10 November 2016

Shareholder	Number of shares	Share in capital	Number of votes	% of votes at GM
Grzegorz Siewiera	1 000 000	30.67%	2 600 000	53.49%
Piotr Kraska/Yavin Limited	443 488	13.60%	443 488	9.12%

b. Other information

xv. Statement of changes in the number of the issuer's shares or rights to such shares (options) held by the issuer's managing or supervising persons as at the date of the report

As at 10 November 2016

	Number of shares held	Value of shares
Michał Czwojdziński (Mamber of the Management Board)	19 000	19 000
Grzegorz Siewiera (Chairman of the Supervisory Board)	1 000 000	1 000 000
KrzysztofWolski (Member of the Supervisory Board)	1 000	1 000

xvi. Any proceedings pending before a court, a competent arbitration body or any public administration authority, including information on any proceedings the concerning issuer's or its subsidiary undertaking's liabilities or claims whose value represents 10% or more of the issuer's equity

Any proceedings concerning issuer's or its subsidiary undertakings' liabilities or claims which total value represents at least 10% of the issuer's equity, were not pending in the reporting period.

xvii. **Information on any one or more transactions concluded by the issuer or its subsidiary undertaking with related entities, if the value of such transactions exceeds the zloty equivalent of EUR 500 000, unless they are typical or routine transactions concluded on market conditions**

During three quarters of 2016, the dominant company and its subsidiaries did not conclude with related entities transactions which value exceeds the zloty equivalent of EUR 500 000 and which were not typical and routine transactions concluded on market conditions between related entities and whose nature and conditions did not follow from the day-to-day operations of the Issuer or its subsidiary undertakings.

b. Other information

xviii. Information on sureties for loans or guarantees issued by the issuer or its subsidiary undertaking

In 2015, the Issuer granted the next surety up to the amount of PLN 750 thousand of renewed overdraft agreement concluded on 25 October 2011 by Softech Sp. z o.o. with mBank S.A. The above surety shall be also binding in a current reporting period. Furthermore, in previous years the Company had granted performance guarantees to the entities from outside the Group listed below. These guarantees are binding in a current reporting period.

- Wałbrzyskie Centrum Sportowo-Rekreacyjne 'AQUA-ZDRÓJ' Sp. z o.o. (special purpose vehicle) – PLN 114.1 thousand, date of expiry – 23 November 2016;
- SNEF Polska Sp. z o.o. – PLN 34.4 thousand, date of expiry – 20 August 2017;
- Domy Wczasowe WAM Sp. z o.o. – PLN 28.8 thousand, date of expiry 31 March 2016.

On 26 February 2016, LSI Software S.A. granted a loan at the amount of PLN 240 thousand to Mr. Grzegorz Siewiera – Chairman of the Supervisory Board of the Company. The repayment date falls on 28 February 2018.

Softech Sp. z o.o. granted a timely payment guarantee to POSIFLEX TECHNOLOGY INC. The value of guarantee amount to USD 300 thousand while the expiration date falls on 31 December 2016.

xix. Any factors which in the issuer's opinion will affect its result in a period covering at least the next quarter

As at the day of publication of the semi-annual report, the Group has not identified any factors other than those mentioned in the report, which could affect the Group's results within at least the next half of the year. LSI Software S.A. expects that the year 2016 will be another year of the Group's growth – at least as dynamic as the year 2015. At the moment, the Issuer is continuing efforts to launch Group's products on the foreign markets based on local distributors or through independent commercial activities. Furthermore Softech Sp. z o.o. as from the beginning of 2016 began a steady supply of goods for customers from other countries of Central and Eastern Europe, which has a direct impact on increasing the current sales growth rates of that company. To reinforce these measures on 13 September 2016 LSI Software S.A. established a subsidiary in the Czech Republic operating under the name of LSI Software s.r.o. The first months of the operation of a new entity and fiscal changes applicable to sales registration systems which are now being introduced on the Czech market, give rise to expectations of relatively rapid growth in sales in this market, which should have a measurable impact on the Group's financial results over the next two quarters.

At present, there is a process of registration of a new subsidiary which head office will be located in one of the European Union countries. Furthermore, the Issuer opened a new branch in Szczecin supporting the northwestern areas of Poland.

b. Other information

The Issuer also took part in trade fair events abroad Poland in order to promote existing and newly created product groups, which market release was scheduled for this year. The first officially introduced to the market product was POSitive® Show system, initially launched during the international trade fairs of the cinema industry - CineEurope (CCIB) in June 2016 in Barcelona. After the June release LSI Software also participated in trade fairs of the cinema industry organized in Odessa and St. Petersburg (Kino Expo), thanks to which new solution of the Company was also presented to potential buyers from the markets of Eastern Europe and Asia. Another currently planned trade fairs - CinemaCon in Las Vegas, will take place in March 2017.

POSitive® Show despite the short period of existence, has already aroused great interest within the cinema industry, which in the opinion of the Board, will have a measurable impact on the Company's financial results for 2016. Upon the conclusion of an agreement with Cinema 3D S.A., the Issuer has reached a 75% share in the market of the largest cinema networks in Poland.

At the same, trade talks with a large, international Group's client are at the final stage in terms of supply of Issuer's solution to hundreds of existing locations in other European Union countries.

The company has also completed intensive work on a new system designed for the hospitality industry, which will be addressed to both domestic and foreign customers. The effects of its commercialization will be reflected in the results of this year.

In addition, the Management Board of the Company undertakes various steps aimed at increasing the Group's market share in different industries through direct acquisitions or investments in new products. Therefore, the Annual General Meeting of Shareholders held on 27 June 2015 adopted a resolution concerning amendments to the Company's Articles of Association in terms of the authorization of the Management Board to increase the capital through the implementation of an authorised share capital increase procedure. The Issuer does not however exclude financing the transaction with own funds and a bank loan in order to avoid dilution of existing shareholders base.

Development prospects of the Group may also be enhanced as a result of acquiring the EU funds for the years 2014 - 2020, for which at present the Group's companies are applying. In the opinion of the Management Board, EU funds should also boost sales of the Company in connection with an increase in investments executed by entities operating in industries supplied by the Group.

The Management Board believes that implementation of the above development strategy, as well as a strong financial foundations of the Group which is a market leader in its industry, create a stable basis for further, organic growth of both LSI Software S.A. and its subsidiary.

b. Other information

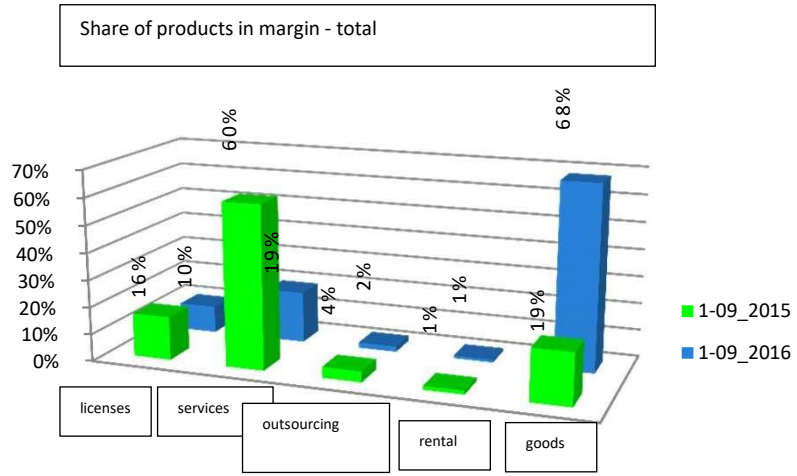
i. Business segments

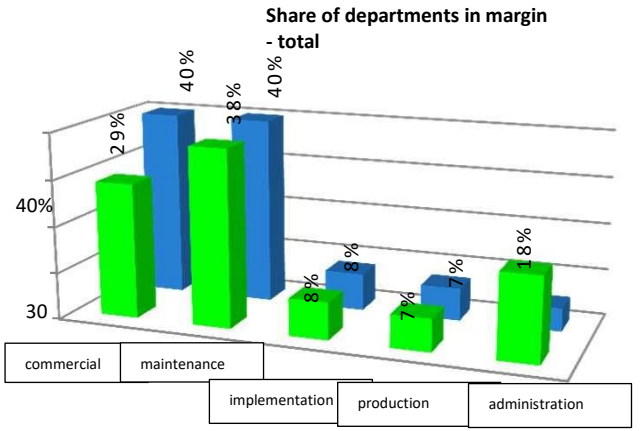
LSI Software carries out the profit margin analysis (calculated according to internal methodology) by product and by structure. Enclosed charts present the share of particular departments or products in the generated margin calculated as 100% (for comparable periods).

The Company does not prepare the income statement for separate departments or products for the needs of business segments analysis. Such analysis has not been implemented, because individual departments carry out their tasks with the use of common resources, and it is pointless (artificial) to assign them costs on the separate basis. A similar situation applies to products which are distributed with the use of the same channels and resources.

The preparation of the income statements described above would result in additional costs and commitment of resources which would not be reflected in the value of the information received.

Market structure	01-09_2015	01-09_2016
retail	23%	32%
hospitality	39%	63%
outsourcing	4%	2%
other	34%	3%





b. Other information

xx. Information on the acquisition / disposal of fixed assets

	01-09.2015	01-09.2016
repayment of loans granted	0	150
loans granted	0	240
Inflows from the sale of fixed assets	64	25
Expenditures for the purchase of fixed assest	4 577	3 036

xxii. Information on impairment of assets

impairment of trade receivables	**01-09.2015**	**01-09.2016**
LSI	-1 630	-1 574
Softech	-377	-187
Revaluation of investment property LSI	0	+500

impairment of inventory	**01-09.2015**	**01-09.2016**
LSI	-25	-25
Softech	-156	-269

revaluation of financial assets	**01-09.2015**	**01-09.2016**
LSI	-2 307	-2 307

xxiii. Information on mutual transactions within the Group

	01-06.2015	01-06.2016
Exclusion of receivables	1 195	1 076
Exclusion of liabilities	1 195	1 076
Exclusion of revenues from sales of products	2 510	1 940
Exclusion of revenues from sales of goods and materials	1 555	2 270
Exclusion of other operating revenues	18	56

b. Other information

Related entity	Sales to related entities		Purchases from related entities		Receivables from related entities		Liabilities towards related entities	
Dominant entity	**30.09.2015**	**30.09.2016**	**30.09.2015**	**30.09.2016**	**30.09.2015**	**30.09.2016**	**30.09.2015**	**30.09.2016**
LSI Software S.A.	1 321	1 488	2 892	3 115	1 027	918	186	194
Subsidiaries:								
Softech Sp. z o.o.	2 773	2 729	1005	1 481	170	159	867	916
LMS Online Sp. z o.o.	0	-	306	-	0	-	0	-
Management Board of the Group:								
Bartłomiej Grduszak	13	179	3	3	0	16	0	0
Michał Czwojdziński	106	207	0	0	16	19	1	1
Henryk Nester	0	0	7	1	0	0	1	1
Grzegorz Strąk	-	0	-	3	-	0	-	0

xxiv. The fair value hierarchy levels

As at 30 September 2016 the Group did not disclose the financial instruments recognized at fair value in the statement of financial position. The Company applies the following hierarchy for determining and disclosing the fair value of financial instruments according to the valuation method:

Level 1 – (unadjusted) quoted prices in active markets for identical assets or liabilities

Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 - unobservable inputs used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

b. Other information

Item	31.12.2015		30.06.2016	
The fair value hierarchy levels				
Assets:	Level 1	Level 2	Level 1	Level 2
Non-financial assets		X		X
liabilities resulting from derivative financial instruments		X		X

The fair value hierarchy level, to which the fair value is classified is determined on the basis of the lowest-level input that is significant for the entire fair value measurement. For this purpose, the significance of the inputs used is assessed by reference to the total fair value measurements. If the fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, the valuation is a valuation classified as Level 3. The assessment of whether certain input used for valuation are important for the entire fair value measurement requires judgment, considering factors specific to the asset or liability. In the period ended 30 September2016 there were no transfers between Level 1 and Level 2 of the fair value hierarchy levels as well as none of the items has not been reallocated from / to Level 3 of the fair value hierarchy.

LSI Software

The daily work becomes easier

ADDITIONAL INFORMATION TO THE CONDENSED INTERIM SEPARATE FINANCIAL STATEMENT OF LSI SOFTWARE S.A.

FOR THE PERIOD OF 01.01.2016 – 30.09.2016

a. Principles applied for the preparation of the separate financial statement

The presented separate financial statement of LSI Software S.A. for the period of 1 January 2016 – 30 September 2016 has been prepared in accordance with the provisions of an Accounting Act of 29 September 1994 as amended.

In particular, there were no changes in the applicable accounting principles (policy). Mentioned principles do not differ significantly from the valuation rules set out for the Group. The rules for determining the value of assets and liabilities as well as financial result did not change.

The most significant differences cover:

- depreciation records maintained for tax purposes, which does not take into account the residual value of fixed assets and is being carried out in the period regulated by separate provisions,
- presentation of supplementary capital with consideration of accumulated profits and agio,
- recognition of already started development works in accrued expense rather than in intangible assets,
- presentation of shares and equity,
- adjusting the structure of financial statements to the IFRS standard.

The Management Board did not state the occurrence of other events or operations which had not been already disclosed in the part regarding the condensed consolidated financial statement and which would require a separate disclosure and could have a significant impact on the assessment of assets, liabilities and equity, financial result or cash flow of LSI Software S.A.

b. Other information

i. Significant changes in estimates for three quarters of 2016

1. Information on significant changes in provisions for pension and similar benefits

Change in long-term provisions for pension and similar benefits	Pension benefits
a) as at 01.01.2016	0
b) increases	0
c) use	0
d) release	0
e) as at 30.09.2016	**0**

Change in short-term provisions for pension and similar benefits	Pension benefits	unused holiday
a) as at 01.01.2016	1	124
b) increases	0	0
c) use	0	0
d) release	0	124
e) as at 30.09.2016	**1**	**0**

As at 31 December 2015 and 30 September 2016 there are no other reserves or provisions apart from the provisions for employee benefits.

2. Information on significant changes in reserves and deferred income tax assets

deductible temporary differences	31.12.2015	30.09.2016
I ASSETS		
1. Impairment of receivables	276	276
2. Impairment of inventory	146	146
3. Revaluation of investments	2 307	2 307
4. Other	110	88
II LIABILITIES		
1. Employee benefits	125	1
2. Lease liabilities	373	479
3. Social Insurance Institution - remunerations	177	191
4. Other	22	2
Total	**3 536**	**3 490**

b. Other information

Change in deferred income tax assets	01.01 -30.09.2016
1. Deferred income tax assets – opening balance, including:	672
a) recognized in financial result	672
b) recognized in equity	0
c) recognized in goodwill or negative goodwill	0
2. Increases	73
a) recognized in financial result in connection with deductible temporary differences	73
b) recognized in financial result in connection with a tax loss	0
c) recognized in equity in connection with deductible temporary differences	0
d) recognized in equity in connection with a tax loss	0
e) recognized in goodwill or negative goodwill in connection with deductible temporary differences	0
3. Decreases	82
a) recognized in financial result in connection with deductible temporary differences	72
b) recognized in financial result in connection with a tax loss	10
c) recognized in equity in connection with deductible temporary differences	0
d) recognized in equity in connection with a tax loss	0
e) recognized in goodwill or negative goodwill in connection with deductible temporary differences	0
4. Deferred income tax assets – closing balance, including:	**663**
a) recognized in financial result	663
b) recognized in equity	0
c) recognized in goodwill or negative goodwill	0

b. Other information

Taxable temporary differences	31.12.2015	30.09.2016
I ASSETS		
1. Net value of assets under lease	516	658
II LIABILITIES		
1. Balance sheet valuation	51	71
2. Other	207	194
TOTAL	**774**	**923**

Change in deferred income tax reserve	01.01 - 30.09.2016
1. Deferred income tax reserve – opening balance, including:	147
a) recognized in financial result	147
b) recognized in equity	0
c) recognized in goodwill or negative goodwill	0
2. Increases	40
a) recognized in financial result in connection with taxable temporary differences	40
b) recognized in equity in connection with taxable temporary differences	0
c) recognized in goodwill or negative goodwill in connection with taxable temporary differences	0
3. Decreases	12
a) recognized in financial result in connection with taxable temporary differences	12
b) recognized in equity in connection with taxable temporary differences	0
c) recognized in goodwill or negative goodwill in connection with taxable temporary differences	0
4. Deferred income tax reserve – closing balance, including:	**175**
a) recognized in financial result	**175**
b) recognized in equity	0
c) recognized in goodwill or negative goodwill	0

b. Other information

3. Change in intangible assets and associated impairments

Change in intangible assets (according to type)	development costs	goodwill	concessions, patents, licenses and similar assets, including computer software	other intangible assets	advances for intangible assets	intangible assets - total
30.09.2016						
a) gross value of intangible assets - Opening balance	8 719	0	0	5 777	0	14 496
b) increases	0	0	0	30	0	30
c) decreases	0	0	0	0		
d) gross value of intangible assets – Closing balance	8 719	0	0	5 807	0	14 526
e) accumulated depreciation (amortization) - Opening balance	8 229	0	0	1 960	0	10 189
f) depreciation (amortization) for the period	308	0	0	757	0	1 065
g) accumulated depreciation (amortization) - closing balance	8 537	0	0	2 717	0	11 254
h) impairment loss – opening balance	0	0	0	0	0	0
- increases	0	0	0	0	0	0
- decreases	0	0	0	0	0	0
i) impairment loss – closing balance	0	0	0	0	0	0
j) net value of intangible assets at the end of the period (closing balance)	**182**	**0**	**0**	**3 090**	**0**	**3 272**

During three quarters of 2016 there were no changes in impairments of intangible assets.

b. Other information

4. Change in fixed assets and associated impairments

Change in fixed assets (according to type) 30.09.2016	lands (including perpetual usufruct right)	buildings, premises and civil engineering structures	Machinery and equipment	Means of transport	other fixed assets	Fixed assets - total
a) gross value of fixed assets - Opening balance	520	3 168	1 138	2 142	293	7 261
b) increases	0	0	71	476	5	552
c) decreases	0	0	0	316	2	318
d) gross value of fixed assets – Closing balance	520	3 168	1 209	2 302	296	7 495
e) accumulated depreciation (amortization) - Opening balance	0	560	989	1 108	228	2 886
f) depreciation (amortization)	0	58	45	226	12	341
g) accumulated depreciation (amortization) - closing balance	0	0	0	171	4	175
h) impairment loss – opening balance	0	618	1 034	1 163	236	3 051
- increases	0	0	0	0	0	0
- decreases	0	0	0	0	0	0
i) impairment loss – closing balance	0	0	0	0	0	0
j) net value of fixed assets at the end of the period (closing balance)	**520**	0	0	0	0	0

During three quarters of 2016 there were no changes in impairments of intangible assets

b. Other information

5. Information on impirments of nonfinancial assets

Itmes	01.01.2016 -30.09.2016
Reversal of impairments	0
Long-term financial assets	0
Short-term financial assets	0
Impairment loss	0
Long-term financial assets	**0**
Short-term financial assets	**0**

6. Change in inventory and associated impairments

Items	31.12.2015	30.09.2016
Materials (gross)	0	0
Materials (impairments)	0	0
Materials (net)	0	0
Semi-finished products and work in progress (gross)	0	0
Semi-finished products and work in progress (impairments)	0	0
Semi-finished products and work in progress (net)	0	0
Finished products (gross)	0	0
Finished products (impairments)	0	0
Finished products (net)	0	0
Goods (gross)	1 014	1 027
Goods (impairments)	25	25
Goods (net)	**989**	**1 027**

b. Other information

Item	Impairments of inventory	Impairments of semi-finished products and work in progress	Impairments of finished products	Impairments of goods	Impairments of inventory - total
As at 01.01.2016	0	0	0	25	0
Increases, including	0	0	0	0	0
- recognition of impairments in correspondence with other operating expenses	0	0	0	0	0
- transfers	0	0	0	0	0
- other	0	0	0	0	0
Decreases, including:	0	0	0	0	0
- release of impairments in correspondence with other operating expenses	0	0	0	0	0
- use	0	0	0	0	0
- transfers	0	0	0	0	0
As at 30.09.2016	**0**	**0**	**0**	**25**	**0**

7. Change in long-term receivables and associated impairments

As at 31.12.2015 and 30.09.2016 no long-term receivables as well as impairments associated with them, were recognized.

8. Change in short-term receivables and associated impairments

Short-term receivables	31.12.2015	30.09.2016
a) from related entities	756	984
- Softech Sp. z o.o.	688	916
- Bluepocket S.A.	68	68
b) from other entities in which the issuer has equity interests	0	0
b) receivables from other entities	3 422	4 046
Net, short-term receivables, total	**4 178**	**5 030**
c) impairments of receivables	1 624	1 574
Gross, short-term receivables, total	5 802	6 604

b. Other information

Short-term receivables from related entities	30.09.2016
a) trade receivables, including:	984
- from subsidiaries	916
- from jointly-controlled entities	68
- from associated entities	0
- from significant investor	0
- from a shareholder in a jointly-controlled entity	0
- from a dominant entity	0
b) other, including	0
- from subsidiaries	0
- from jointly-controlled entities	0
- from associated entities	0
- from significant investor	0
- from a shareholder in a jointly-controlled entity	0
- from a dominant entity	0
c) claimed at court	0
Net short-term receivables from related entities, total	**984**
d) impairments of receivables from related entities	0
Gross short-term receivables from related entities, total	984

Trade receivables - gross - with maturity from balance sheet date:	30.09.2016
a) up to 1 month	2 588
b) over 1 month to 3 months	73
c) over 3 months to 6 months	0
d) over 6 months to 1 year	0
e) over 1 year	0
f) overdue	3 297
Trade receivables, total (gross)	5 958
g) impairments of trade receivables	1 574
Trade receivables, total (net)	**4 384**

b. Other information

Overdue trade receivables (gross) - broken down into receivables is not paid within the period of:	30.09.2016
a) up to 1 month	522
b) over 1 month to 3 months	412
c) over 3 months to 6 months	94
d) over 6 months to 1 year	159
e) over 1 year	2 110
Overdue trade receivables (gross) - total	3 297
f) impairments of Overdue trade receivables	1 574
Overdue trade receivables (net) - total	**1 723**

Change in impairments of short-term receivables	30.09.2016
Opening balance	1 624
a) increases	0
b) decreases	0
impairments of short-term receivables – closing balance	**1 624**

ii. **Information on significant acquisitions or disposals of fixed assets**

In the period of 1.01. – 30.09.2016, there were no material transactions of acquisition or disposal of any tangible fixed assets.

iii. Information about significant commitment (liability) in respect of the purchase of fixed assets

As at 30 September 2016 no liabilities arising from the acquisition of tangible fixed assets (except for liabilities resulting from existing lease agreements) were recognized.

b. Other information

iv. Corrections of prior period errors

There were no corrections of prior period errors.

v. Information on changes in the economic situation and operating conditions which have significant impact on fair value of financial assets and liabilities of an entity

In the reporting period, there were no changes in the economic situation and operating conditions which would have a significant impact on fair value of financial assets and liabilities of an entity.

vi. Information on non-payment of the credit or loan or on violating significant provisions of the credit or loan agreement, in relations to which no corrective measures were undertaken until the end of the reporting period

In the reporting period there were no irregularities associated with repayment of the credit or loan or with violating significant provisions of the credit or loan agreement.

vii. Information on change of methods of determining the fair value of financial instruments

The issuer does not hold any fair-valued financial instruments.

viii. Information on changes in the classification of financial assets as a result of a change of the purpose or use of these assets

In the reporting period , there were no changes in the classification of financial assets.

Approval of disclosed information

The interim condensed consolidated financial statement hereof has been approved by the Management Board for publication on 10 November 2016.

Management Board of the Company/Group
- Bartłomiej Grduszak
- Michał Czwojdziński
- Henryk Nester
- Grzegorz Strąk

Łódź, 10 November 2016