



***LSI Software***  
***The daily work becomes easier***

***STATEMENT ON BUSINESS ACTIVITIES TO THE CONDENSED INTERIM  
CONSOLIDATED FINANCIAL STATEMENT  
OF LSI SOFTWARE GROUP***

***for the period of 1 January 2016 – 30 June 201***

## 1. Basic information

LSI SOFTWARE GROUP

with its registered office in Łódź

176/178 Przybyszewskiego St.

LSI Software S.A. with its registered office in Łódź at 176/178 St. was registered with the National Court Register kept by the District Court for the City of Łódź (20<sup>th</sup> Commercial Department of the National Court Register) under the following number: KRS 0000059150.

The main scope of the Company's business activities shall include:

- Other software consultancy and supply 72.22 Z

**LSISOFT / LSI / PLLSSFT00016**

**IT**

**Main Market 5 MINUS**

The duration of Group's operations shall be unlimited.

The financial statement of LSI Software Group has been prepared for the period of 1 January 2016 – 30 June 2016. The comparable period includes the data for the period of 1 January 2015 – 30 June 2015.

## 2. Description of the basic economic and financial figures, factors and events of unusual nature and development prospects

Both the Company and the Group, despite persisting uncertainty in the markets, systematically improve their results in terms of profit on operating activities. Compared to 2015, operating profit increased by **PLN 183 thousand**, that is nearly by **8%**. In turn, the **EBITDA** recorded a more than 22% growth after the first half of 2016 amounts to **PLN 4 018 thousand**.

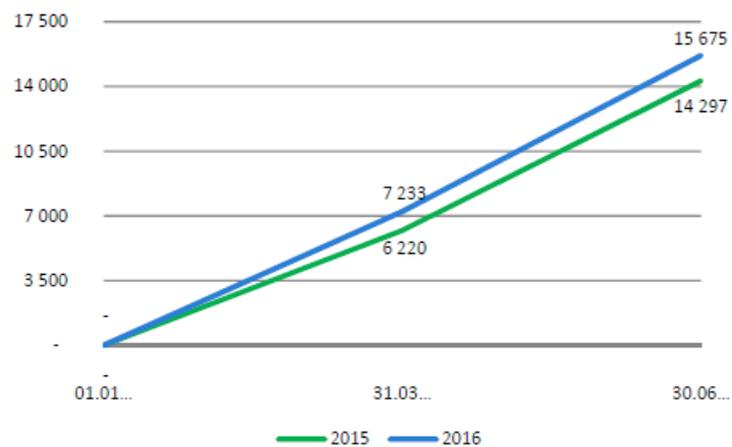
At the same time net profit increased from the level of PLN 1 936 thousand for the first half of 2015 to **PLN 2 017 thousand** for the respective period of 2016 which represents a 4% increase.

In terms of sales revenues, the Group maintained the current **growth in turnover** compared to the first half of 2015 at nearly 10%.

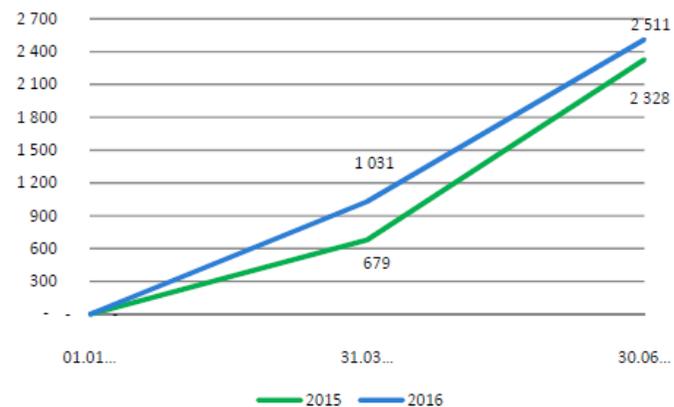
Change in economic figures	30 June 2015	30 June 2016
Net profit	100.0%	104.2%
Operating profit	100.0%	107.9%
EBITDA	100.0%	122.3%
Sales revenues	100.0%	109.6%

There were no material changes to the balance sheet structure which would require additional explanation and clarification. It is worth noting that the total financial debt of the Group decreases systematically while the cash level increases (from PLN 1 800 thousand after the first half of 2015 to PLN 4 109 thousand for the corresponding period of 2016).

Sales revenues – quarterly



Profit (loss) on operating activities - quarterly



## **Events of unusual nature**

In the opinion of the Management Board, in the first half of 2016 there were no unusual events which could have a significant impact on the operating results.

## **Development prospects**

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.

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.

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. This system is currently the most modern solution of this kind in the world, serving in an integrated manner most of the processes occurring in entertainment facilities, with consideration of the specificity of different regions of the world. 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 continued in terms of supply of Issuer's solution to hundreds of existing locations in other European Union countries. Their completion is planned for the fourth quarter of this year.

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.

### **3. Risk factors and threats to which the Group is exposed**

#### **Factors associated with the business operations of the Group**

- Risk associated with the introduction of new products of the Group and the development of existing ones

The dynamic development of information technology and methods of data transmission and processing, enforces the need to keep up with new technologies. IT companies are forced to constantly renew offered products and services and to develop new technology solutions. There is a risk associated with the difficulties in keeping up with the market development in this area, as well as it is uncertain whether the introduction of a new product that is currently being developed or will be developed by the Group, would be positively welcomed by potential customers. In order to minimize mentioned risk, the Group continuously analyzes the trends in the IT services market, effectively responds to market's demand for new solutions as well as effectively adjusts the catalogue of offered products and methods for their use to customers' expectations. The Group systematically establishes and maintains business relationships with suppliers and customers and ensures a high technological level of its own products and services associated with them.

- Risk associated with the changes of the growth-rate of ERP software market

During the past year, the ERP software market in Poland as compared to the growth rate of gross domestic product, maintained an upward trend. In accordance with publications and industry analysis presenting growth forecasts for this area of services, further intensification of this market should be assumed. However, for the assessment of aforementioned assumptions, the potential economic fluctuations (which, as a consequence, may be significant for the potential clients of the Group while making investment decisions regarding the use of IT solutions offered by the Group) shall also be of considerable importance.

In order to reduce this risk, the Group develops its operations by diversifying its own customers area. The Group addresses its product portfolio to companies operating in various business sectors. The distribution of the offer among several market areas effectively reduces the dependence on customers thereby reducing this risk.

- Risk associated with the change of criteria regarding the technology provided by technology partners

The development of the Group's activities depends to a large extent on access to modern Information Technology solutions. Currently, the main partner in this regard is Microsoft - the largest software producer in the world. Microsoft, under the partnership agreement, cooperates with the Group in the field of implementation of the system environment and databases. It cannot be excluded that in future the status of the partnership may change, particularly with regard to a possible increase of cost associated with an access to technology, which in turn could result in the need to change the pricing policy for customers. All these facts would for sure partially reduce the competitiveness in the IT services market.

- Risk associated with the loss of key employees

The Group's operations and its development prospects depend largely on the knowledge and experience of highly qualified personnel. It is typical for the companies operating in IT sector. The dynamic development of IT companies in Poland and in the European Union may contribute to the growth in the demand for highly qualified and experienced staff. The main method for obtaining employees is to offer them competitive salary and working conditions. There is a risk that the loss of key employees could result in delays in the implementation of works. Any increase in costs of employment may have a negative impact on the Group's financial results and development opportunities. The Group establishes optimal incentive systems which build positive relationships with employees, guarantee the limited staff turnover and enable maintaining a stable base of qualified and highly experienced IT employees.

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

- Risk associated with the instability of legal system

The Polish legislation and its interpretation is subject to frequent changes. Many of the existing legal provisions, particularly tax provisions, have not been formulated in a sufficiently precise manner so they lack a clear interpretation. Any changes in the law may have a negative impact on the Group's business activities and the environment in which the Group operates. Entry into force of new regulations which are significant for the economic relations may result in different problems associated with interpretation, inconsistent judicial decisions, disadvantageous interpretations adopted by public authorities, etc., which in turn can, directly or indirectly, translate into worse operating conditions for the Group.

- Risk associated with world macroeconomic situation and macroeconomic situation in Poland

The activities of the Group and the pace of the development of its product offer are closely associated with the overall economic situation of the country. The financial result of the Group is undoubtedly affected by such factors as the level of GDP, the level of business investments, the level of inflation, the level of foreign exchange

rates against zloty (PLN) and geopolitical situation in the region. Any slowdown in economic growth, the decline of investments, in particular in the field of modern technology as well as the inflation growth could have a negative impact on operations and financial position of the Group and its financial results. Due to the import, the low value of zloty (PLN) is also recognized by the Group as a threat.

The macroeconomic situation and the results of the Group may also be affected by the geopolitical conditions prevailing in the region, including the ongoing dispute over the Polish Constitutional Court and the Ukrainian conflict.

In order to reduce the potential negative effects of aforementioned factors, the Company diversifies its operating areas also throughout addressing its offer to foreign clients.

- Risk of competition

The rising competition from both Polish and foreign IT companies shall significantly affect the business operations of the Group. The consolidation of companies in the market shall also constitute a serious threat. Furthermore, the growing number of institutions benefiting from its own experts in the field of IT solutions may affect the Group's competitiveness to other entities which in turn may have a negative impact on the business activities and financial result. Therefore, it cannot be excluded that the growing competitive pressure will not affect the level of profitability of the Group's business.

- Risk of industry consolidation

Consolidation processes in the IT industry lead to strengthening the largest entities in the market which enables them an access to new customers. The strongest companies seek to take over weaker companies operating in niche segments of the IT market. The Group, aiming to strengthen its position in the market, also plans the acquisition of companies in certain market segments.

- Financial risk

The purpose of the Group's financial risk management is to reduce to an acceptable level the volatility of cash flows and financial performance generated on the core business of Group's entities. The main financial instruments used by the Issuer are:

- cash,
- short-term deposits,
- foreign exchange and forward transactions,
- loans granted,

- overdrafts and long-term credits,
- lease agreements.

The main purpose of these instruments is to ensure the financial security and stability of current business operations of the Group through stabilizing and minimizing the liquidity risks, foreign currency and interest rates risks, as well as the efficient allocation of available financial resources.

Currency risk management strategy applied by the Issuer assumes the maximum use of natural hedging. The Company strives to maximize structural matching of revenues and expenses in the same currency as the executed contracts. Net exposure to currency risk which is not hedged in a natural manner, shall be hedged at the time of the transaction up to a maximum of 100% of the estimated value of net exposure, exclusively with the use of approved types of derivatives, i.e. forward transactions.

#### **4. Compliance with corporate governance rules and the Company's managing and supervising bodies**

##### **Indication of the code of corporate governance rules applied by the issuer**

The issuer applies corporate governance recommendations and rules set forth in the document 'Best Practice for GPW Listed Companies 2016'. The rules specified in Part I to IV are subject to annual statements on compliance with corporate governance code.

##### **Indication and explanation of derogations from the corporate governance rules**

In accordance with the applicable provisions, LSI Software S.A. submitted a statement regarding the compliance with corporate governance rules in the form of a report. Having regard to the current content of the Corporate Governance Code, the Company does not apply 4 recommendations: III.R.1., IV.R.2., IV.R.3., VI.R.3. Having regard to the current content of the Corporate Governance Code, the Company does not apply 15 detailed principles: I.Z.1.10., I.Z.1.16., I.Z.1.20., I.Z.2., II.Z.2., II.Z.8., III.Z.1., III.Z.2., III.Z.3., III.Z.4., III.Z.5., IV.Z.2., IV.Z.9., V.Z.6., VI.Z.2.

**I.Z.1.10. financial projections**, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation;

The rule is not applied. The Company's comment: The Company does not publish and did not publish financial forecasts in the last 5 years.

**I.Z.1.16. information about the planned transmission of a general meeting**, not later than 7 days before the date of the general meeting;

The rule is not applied. The Company's comment: The Company does not apply the rule concerning the transmission of a general meeting due to a low level of shareholding dispersion and significant costs associated with application of this rule.

**I.Z.1.20. an audio or video recording of a general meeting;**

The rule is not applied. The Company's comment: The Company does not apply the rule concerning the an audio or video recording of a general meeting due to a low level of shareholding dispersion and significant costs associated with application of this rule.

**I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1.** This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity.

The rule is not applied. The Company's comment: The shareholding structure as well as the scope of business operations do not support application of this rule. The Company, however, ensures the availability of its corporate website in English as required by the Liquidity Support Program.

**II.Z.2. A company's management board members may sit on the management board or supervisory board of companies other than members of its group subject to the approval of the supervisory board.**

The rule is not applied. The Company's comment: the derogation is of temporary nature. The Company will endeavor to guarantee so that at the next meeting of the Supervisory Board, an issue associated with performance by the Member of LSI Software S.A. Management Board of functions in the Management Board of a company from outside the Group, could be resolved.

**II.Z.8. The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4.**

The rule is not applied. The Company's comment: The audit committee has not been appointed and therefore the rule is not applied.

**III.R.1. The company's structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company's activity.**

The rule is not applied. The Company's comment: The Company's structure will not include separate units responsible for the performance of tasks in individual systems or functions due to the scale and scope of business operations.

**III.Z.1. The company's management board is responsible for the implementation and maintenance of efficient internal control, risk management and compliance systems and internal audit function.**

The rule is not applied. The Company's comment: The Company has not separated the functions of internal audit due to the scale and scope of business operations.

**III.Z.2. Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.**

The rule is not applied. The Company's comment: The Company has not separated the functions of internal audit due to the scale and scope of business operations.

**III.Z.3. The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.**

The rule is not applied. The Company's comment: The Company has not separated the functions of internal audit due to the scale and scope of business operations.

**III.Z.4. The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.**

The rule is not applied. The Company's comment: The Company has not separated the functions of internal audit due to the scale and scope of business operations.

**III.Z.5. The supervisory board should monitor the efficiency of the systems and functions** referred to in principle III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to principle II.Z.10.1. Where the company has an audit committee, it should monitor the efficiency of the systems and functions referred to in principle III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.

The rule is not applied. The Company's comment: The Company has not separated the functions of internal audit due to the scale and scope of business operations.

**IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means,** in particular through: 1) real-life broadcast of the general meeting; 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting; 3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

The rule is not applied. The Company's comment: The Company does not intend to apply the rule regarding proceeding of the General Meeting using electronic communication means due to a low level of shareholding dispersion and significant costs associated with application of this rule.

**IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.**

The rule is not applied. The Company's comment: The shares of the Company are traded in Poland only.

**IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.**

The rule is not applied. The Company's comment: The Company does not apply the rule regarding real-time broadcasts of general meetings due to a low level of shareholding dispersion and significant costs associated with application of this rule.

**V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company,** as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

The rule is not applied. The Company's comment: The Company does not apply this rule, however does not preclude the possibility of preparation of internal regulations taking into account among others ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

**VI.R.3. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.**

The rule is not applied. The Company's comment: The remuneration committee has not been appointed within the structure of the Supervisory Board.

**VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals,** the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

The rule is not applied. The Company's comment: Before the implementation of "Best Practice for GPW Listed Companies 2016" under the incentive schemes the Company used the instruments which exercisability were less than two years.

**Main features of the internal control and risk management system in terms of preparation of the financial statements**

The internal control and risk management processes in relation to the financial statements preparation are carried out by the Supervisory Board, Management Board and employees at all levels. Developed and applied internal control system in terms of accounting documentation ensures the reliability, completeness and timeliness of information included in the financial statements, as well as compliance with applicable laws and regulations. The company constantly monitors the significant factors of legal risks.

One of the basic elements of control in the process of preparing financial statements is their verification by an independent auditor. The annual and half-yearly financial statements are subject to audit and review by an independent auditor. The statutory auditor is appointed by the Supervisory Board on the basis of the best offer presented as a response to an Inquiry. Quarterly reports, half-yearly reports and annual reports are periodically presented by the Management Board to the Supervisory Board.

## Shareholders holding indirectly or directly significant blocks of shares

### As at 25 August 2016

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

## Information on holders of securities entitling to special supervisory powers over the issuer and description of these powers

As at 25 August 2016, the registered B-series shares in the amount of 400 000 are vote-preferred shares (5 votes per share; the total number of votes attached to mentioned shares: 2 000 000) and are held by Grzegorz Siewiera.

## Information on the limitations as regards the exercise of voting rights

Not applicable.

## Information on the limitations regarding the transfer of the ownership rights attached to securities of the issuer

Not applicable.

## Description of the rules regarding the appointment and dismissal of managing persons; description of managing persons' powers

The rules regarding the appointment and dismissal of managing persons of the Issuer are strictly defined in the Management Board Rules and in the Articles of Association of LSI Software S.A.

### **Description of rules regarding the changes to the Issuer's Articles of Association**

The responsibility for changes to the Articles of Association is given to the General Meeting. Each time, after the registration of changes to the Articles of Association, the consolidated text is determined by the Supervisory Board. The text of the Company's Articles of Association is available on the websites of the Issuer and the Warsaw Stock Exchange.

The last changes to the Company's Articles of Association were introduced under Resolutions No 25 and 26/2016 of the Ordinary General Meeting of LSI Software S.A. held on 30 June 2016. As

### **General Meeting's operations and its basic powers**

The General Meeting of LSI Software S.A. operates on the basis of the Rules of the General Meeting and the Company's Articles of Association. For the time being, these changes have not yet been registered by the Court.

### **Composition and changes to the composition of issuer's managing and supervising bodies**

As at 1 January 2016, the composition of **LSI Software S.A. Management Board** was as follows:

- Bartłomiej Grduszak – President of the Management Board
- Michał Czwojdzinski – Member of the Management Board
- Henryk Nester - Member of the Management Board

On 30 June 2016, the General Meeting appointed a new Member of the Management Board – Mr. Grzegorz Strąk.

In 2016, the composition of **LSI Software S.A. Supervisory Board** was as follows:

- Grzegorz Siewiera - Chairman of the Supervisory Board
- Krzysztof Wolski – Member of the Supervisory Board
- Andrzej Kurkowski – Member of the Supervisory Board
- Piotr Kardach – Member of the Supervisory Board
- Grzegorz Kwiatkowski – Member of the Supervisory Board

The composition and manner of appointing the members of the Supervisory Board, the rights and obligations of Members of the Supervisory Board, the competences of the Supervisory Board, managing the works of the Supervisory Board, convening the meetings of the Supervisory Board, the manner of adopting the resolutions are described in detail in the Rules of the Supervisory Board available on the Company's corporate website.

#### **5. Significant proceedings pending before a court, before a relevant body for conducting arbitration proceedings or before government bodies.**

As at 30 June 2016 as well as at the day of the financial statement hereof disclosure, any proceedings concerning issuer's or its subsidiary undertakings' liabilities or claims whose aggregate value represents at least 10% of the issuer's equity, were not pending.

#### **6. Information on basic products, services and the markets**

The main scope of the Group's business activities has not changed and is focused on the production, sale and implementation of proprietary software. The Group is a provider of integrated IT solutions for business management, in particular in the following segments of the small and medium-sized companies:

- Retail - solutions in this group of clients include all the processes occurring in the traditional commercial enterprise. Starting from ordering goods, through warehouse management at the headquarters level, logistics services for stocking own stores, complaints, sales registration in points of sale ending with data analysis in the headquarters. System ensures the maintenance of such areas of the enterprise as accounting, finance, HR and payroll.
- Hospitality – products in this group are intended for the hospitality market. Mentioned products support not only the catering activities but also the restaurant (restaurants chain) or hotel management as well as the organization of conferences. The offer also includes comprehensive systems for managing sport activities and SPA centers.
- Recreation and sport facilities - solutions in this group are intended for different-size recreation and sport facilities i.e. swimming pools, water parks, sport and entertainment centers, stadiums, exhibition halls. The system integrates software and technical infrastructure ensuring a comprehensive customer service.
- Small and medium-sized companies (ERP) of any business line.

The Group's product offer can be divided into the following product lines:

LSI SOFTWARE S.A.:

- **POSitive® Hospitality** - sales systems and customer service systems for hospitality and sport business segments,
- **POSitive® ESOK** - electronic customer service, integrates innovative IT software and technical infrastructure, provides managers with full control of key areas of the facility's operations,

- **POSitive® Retail** - sales systems and customer service systems for retail industry,
- **Bastion® ERP** – ERP-class system for business management,

In the mid-2016, **POSitive® Show** System was officially launched on the market. The system is a comprehensive solution for managing the network of entertainment undertakings including cinemas, theatres, stadiums, and other facilities of similar purpose. This system is currently the most modern solution of this kind in the world, serving in an integrated manner most of the processes occurring in entertainment facilities, with consideration of the specificity of different regions of the world.

Sotech Sp. z o.o.

- **CHART** - sales systems and customer service systems for hospitality segment,
- **GASTRO POS** – system for quick and intuitive managing of sales intended for catering industry,
- **GASTRO SZEF** - system for business management,
- **GASTRO FINANSE** - simple and intuitive tool for complete control of key aspects of the catering business,
- **mojeGASTRO** – on-line services ensuring among others, protection and availability of data through flexible dashboards, as well as placing orders via the Internet,
- **LMS** – system for professional management of loyalty programs and non-cash payments,
- **POSIFLEX** – Softech is an exclusive distributor of POSIFLEX equipment supporting the sales processes (touch POS terminals, touch screens, peripherals),
- **LRS** - Softech is an exclusive distributor of LRS communication solutions - wireless professional paging systems for any industry (catering, hotels, retail, healthcare, logistics, etc.)

BluePocket S.A.:

blue pocket - platform with a mobile application for smartphones that allows to run and manage many types of loyalty, marketing and promotional programs.

The Group is also involved in the production of dedicated software which is developed on special request of customers on the basis of the analysis of needs and technological capabilities and financial resources of the recipient. The realization of products developed under ‘the special request’ may be carried out within three areas:

- Modifications to the existing software developed by the Company,
- Adjusting the software of other developers,
- Production of completely new dedicated software developed on the basis of profound analysis of processes being the subject of this newly created software.

Apart from the software development, the Group provides the services associated with:

- implementation, sales and maintenance of own software;

- consultancy in the field of the flow of information and optimization of business processes in the pre-analysis phase;
- maintenance of network infrastructure.

In 2016 the majority of the Group's revenue was associated with the sales on a domestic market, while foreign revenues were generated primarily on the supplies executed by Softech Sp. z o.o. The Issuer and its subsidiary are continuing efforts to launch Group's products on the foreign markets based on local distributors. 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. The sales of the Group is of dispersed nature. In the structure of sales, in relation to the turnover value, there is no significant recipient of services and solutions of the Group. Diversified portfolio of customers allows to retain the independence from individual buyers. Among the Group's clients, small and medium-sized companies sustaining strong market position, are the largest group.

## **7. Information on significant agreements**

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.

## **8. Organizational or capital relations between the Issuer and other entities with the indication of Issuer's major domestic and foreign investments**

The composition of LSI Software Capital 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 – purchase price: PLN 5 050 thousand),

- LMS Online Sp. z o.o., as a subsidiary (LSI Software S.A. held 70% of this company's shares/70% of votes while Softech Sp. z o.o. held the remaining 30%/30% of votes – purchase price: PLN 1 003 thousand). Due to disposal of 100% shares of LMS Online Sp. z o.o. on 16 June 2016, the subject Company is no longer consolidated,
- 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.

The Issuer concludes sale / purchase transactions with all related entities. Transactions are carried out on market conditions applicable to transactions with other entities.

### **9. Information on credits, loans, guarantees and sureties incurred, terminated or granted in a given financial year**

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.

- Walbrzyskie 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.

### **10. Use of proceeds from the issue**

Such information was disclosed in the financial statements for previous years.

#### **11. Differences between financial results presented in the annual financial statement and previously published forecasts**

The Issuer did not publish the forecasts.

#### **12. Structure of assets and liabilities of consolidated balance sheet with consideration of the liquidity of the Issuer's capital group**

The analysis of the structure of short-term liabilities in connection with short-term reserves, and on the other hand, with short-term receivables together with the balance of cash, reflects the equalization of values as at 30 June 2016. Both the cash held and the support in the form of working-capital credits are important tools securing the Group's financial liquidity and stable development.

#### **13. The most important events significantly affecting the business activity and financial results of the Issuer's capital group in a financial year or events which could have such an impact in the subsequent years**

In particular, there were no changes in the applicable accounting rules (policies). Also, the rules for determining the value of assets and liabilities and financial result measurement, did not change.

Apart from business cycles which cannot be estimated precisely, the Management Board does not identify any other factors which could have a significant impact on the Group's activities and its results.

#### **14. Description of the structure of main capital investments carried out within the Issuer's capital group in a given financial year**

Such information has been presented in point 8 of hereof.

#### **15. Description of the Issuer's capital group with the indication of entities subject to consolidation and description of changes to the Issuer's capital group together with the explanation of these changes**

The composition of the Capital Group has been presented in point 8 hereof. The entities are subject to full consolidation, with the exclusion of BluePocket S.A. which is 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.

## **16. Description of the policy regarding the development directions of the Issuer's capital group**

As a result of the acquisition of Softech Sp. z o.o., according to estimates LSI Software Group supports more than 70% of the catering market. At the same time LSI Software S.A. gained access to the distribution channel for products and services of over 300 active partners of Softech Sp. z o.o. (including foreign partners). An essential extension of these partners' offer is also possible.

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. 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.

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. This system is currently the most modern solution of this kind in the world, serving in an integrated manner most of the processes occurring in entertainment facilities, with consideration of the specificity of different regions of the world. 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.

## **17. Assessment of financial resources management**

Described in point 2 of the report hereof.

## **18. Assessment of possibility to implement investment plans including capital investments**

Investment expenditures planned for 2016 will be financed with the Group's own funds and the funds obtained from the European Union. The Issuer does not preclude attracting further funds from venture capital funds or the issue of new shares aimed at financing planned acquisitions.

## **19. Assessment of factors and events of unusual nature which may affect the operational results for the financial year**

The Management Board did not recognize any unusual events affecting the financial situation and position of the Capital Group in 2016.

## **20. External and internal factors significant to the issuer's development; description of business activities development prospects in the subsequent financial year**

### **External factors**

Economic trends:

Poland's economic situation is still recognized as one of the most interesting in the region and promising in terms of positive GDP growth and continued favorable growth prospects.

Competition:

The company is one of the leaders in its industry, which thanks to consistent development policy and diversification will certainly allow to compete successfully with other players in the market.

### **Internal factors**

Organization of the Group.

The composition of LSI Group allows to continue business activities through the intensified internal development of owned entities.

### **Group's development prospects**

LSI Software S.A. expects that 2016 will be a period of further development of the Company. The Company will focus on selling its own software and services associated with this sales (implementation, maintenance) on the hospitality (catering, hotels, sports centers, SPA, cinema networks) and retail markets (retail stores, chains) and to a lesser degree on the ERP-class software market.

The Issuer also plans further investments in new products, mainly through direct acquisitions. 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.

## 21. Changes to the basic principles of the Issuer's business and Capital Group management

The Management of LSI Software S.A. consistently pursues the management policy focusing on quality and efficiency. The procedures are being continuously improved in order to optimize the management process, guarantee the effective flow of information in the Company and in the Group and ensure the exchange of information with the business environment.

## 22. Agreements concluded between the Issuer and managing persons providing for the compensation in case of managing persons' resignation or dismissal from position held

The Issuer did not conclude with Member of the Management Board any agreements providing for the compensation in case of their resignation or dismissal from position held.

## 23. Value of remuneration, awards or benefits paid to each managing or supervising person in issuer's enterprise

Due for the period of 1 January 2016 – 30 June 2016

Amounts in PLN thousand	LSI Software		Softech	
	Fixed remuneration	Other benefits		
Bartłomiej Grduszak	78	75	0	Management Board
Henryk Nester	60	12	0	Management Board
Grzegorz Strąk	47	0	3	Management Board
Michał Czwojdziniński	85	75	13	Management Board
Grzegorz Siewiera	6	10		Supervisory Board

Krzysztof Wolski	2	0	Supervisory Board
Piotr Kardach	2	0	Supervisory Board
Andrzej Kurkowski	2	0	Supervisory Board
Grzegorz Kwiatkowski	2	0	Supervisory Board

Fixed remunerations include both remuneration payable under the employment contracts and under other civil law agreements. The other benefits include remuneration for performed functions and additionally commissioned works.

The supervising and managing persons except for Mr. Michal Czwojdzinski do not receive remunerations and any other benefits for the performance of functions in the bodies of subsidiaries. Members of the Management Board, except for the President and Mr. Michal Czwojdzinski, have signed contracts of employment with the Company. President of the Management Board and Mr. Michal Czwojdzinski are performing their functions for the Company on the basis of cooperation agreements. These agreements may be terminated with a 3 and 6-month notice period respectively. In the last year, there were no significant changes in the remuneration policy of the Company.

**24. The total number and nominal value of all issuer's shares and shares of issuer's related entities held by the issuer's managing or supervisory persons (for each person separately)**

	Number of shares held	Value of shares
Michal Czwojdzinski (Member of the Management Board)	19 00	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

**25. Information on agreements which in future, may result in changes in proportion of shares held by shareholders**

Described in point 19 of the report hereof.

## 26. Information on the control system for employee share schemes

Not applicable.

## 27. Information on agreements with an entity authorized to audit financial statements

The Supervisory Board of LSI Software S.A. has selected:

- PKF Consult Sp. z o.o. (Firm of Statutory Auditors) as an entity authorized to audit and review the financial statement for the year 2015 – agreement of 1 June 2015,
- PKF Consult Sp. z o.o. (Firm of Statutory Auditors) as an entity authorized to audit and review the financial statement for the year 2016 – agreement of 18 July 2016.

The total remuneration arising from the agreement concluded with an entity authorized to audit the financial statements due or paid is indicated below:

<b>PLN THOUSAND</b>	<b>2015</b>	<b>2016</b>
Review and audit regarding the financial year (unconsolidated and consolidated)	24	24
<b>TOTAL</b>	<b>24</b>	<b>24</b>

## 28. Description of off-balance sheet items

Not applicable.

## 29. Supplement to the unconsolidated statement

The Management Board did not recognize 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. Company.

**The Management Board  
of the Company / Capital Group**

- Bartłomiej Grduszek

- Michał Czwojdzński

- Henryk Nester

- Grzegorz Strąk

Łódź, 25 August 2016