Introduction to the financial statement
LSI Software S.A.
1. Basic information

LSI SOFTWARE SPÓŁKA AKCYJNA (JOINT STOCK COMPANY)
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 (20th Commercial Department of the National Court Register) under the following number: KRS 0000059150.

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

- Computer programming activities 62.01 Z

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The duration of the Company’s business operations shall be unlimited.

The financial statement of LSI Software has been prepared for the period of 1 January 2016 – 31 December 2016. The comparable period: 1 January 2015 – 31 December 2015.

The financial statement has been prepared in accordance with the provisions of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended) and the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities (Journal of Laws No. 33, item 259) and the Regulation of the Minister of Finance of 12 December 2001 on detailed principles of recognition, measurement, disclosure and presentation of financial instruments (Journal of Laws No. 149, item 1674, as amended).

The financial statement has been prepared assuming that the Company 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 Company.

2. Valuation (measurement) principles

**Fixed tangible assets**

Fixed tangible assets shall refer to buildings and structures, including leasehold improvements, machinery and devices, computer equipment, means of transport and other fixed assets.

Fixed tangible assets are recognized at the historical acquisition price or manufacturing cost less depreciation. In the opinion of the Issuer, the carrying value of fixed tangible assets does not differ significantly from their fair value. Subsequent expenditures are taken into account at the carrying value (balance sheet value) of particular fixed asset or are recognized as a separate asset in the case of significant differences in terms of useful economic life periods of the separate parts of an asset. Any other expenditure 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 over the period corresponding to the estimated period of their useful economic life, excluding the residual value.

**Intangible assets**

Intangible assets refer to the development costs and acquired property rights used by the entity. Other intangible assets are measured at historical acquisition price less depreciation, due to the fact that in the opinion of the Issuer, their carrying value does not differ significantly from the fair value. Intangible assets are depreciated on a straight-line basis over the period of estimated useful economic life while the residual value is negligible.

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The accompanying notes are an integral part of this financial statement
Lease

Finance lease agreements are activated at the inception of the lease, at the fair value of the leased asset or at the amount equal to the present value of the minimum lease payments, if it is lower than the fair value. The subsequent measurement is based on the present value of future minimum lease payments. Depreciation of the leased asset is calculated starting from the month of their readiness for operation, over the lease term or the estimated useful life.

Investments

In the financial statement of a Dominant Entity, the participating interests and shares in subordinated undertakings are recognized at acquisition price adjusted for impairment losses on assets. The entity establishes impairment losses based on the procedure specified in the National Accounting Standard No. 4 - Impairment of Assets.

Foreign exchange differences

Foreign exchange differences relating to assets and liabilities denominated in foreign currencies arising on the date of their measurement and on payment of receivables and liabilities as well as the sale of foreign currencies, are recognized in financial income or expenses, respectively. In the profit and loss account, the foreign exchange differences are presented after offsetting against each other, while the result on foreign exchange differences is presented in financial income or financial expenses.

Incentive scheme

The Company did not develop the incentive scheme.

Inventory – Commercial goods

Commercial goods are received into the warehouse at the acquisition price. The determination of disposal value is performed on the basis ‘first in-first out’ cost formula, which is consistent with the requirements of accounting policy. Inventory at the year-end are measured at acquisition prices and verified through physical inventory.

Receivables

Valuation of receivables as at the balance sheet day is carried out at the fair value of the payment less impairment losses. Impairment provision shall also be established in respect of amount receivable that are overdue or which are highly likely to be uncollectible at a reliably estimated amount of provision. Provisions for impairment of receivables are recognized in other operating expenses or financial expenses, depending on the type of amount receivable to which the provision relates.

Accruals

Accruals cover particularly:
- property insurance,
- deferred income tax assets,
- development works in progress,
- other costs relating to next reporting periods (subscriptions, advance payments, etc.).

Reserves and funds

The initial capital is the share capital of LSI Software S.A. and is recognized at nominal value. The statutory capital reserve is created out of share premium and other statutory titles, including transfer of financial result.

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Retained profit (loss)

Result of previous years includes profit (not covered losses) from previous years adjusted for possible effects of fundamental errors, the value of the revaluation of assets (including deferred tax).

Provisions for liabilities

Provisions are recognized when with regard to the entity, an obligation (legal or customary) arising from past events, has 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 the case where the time value of money is significant (employee benefits), the amount of provision is determined by discounting the 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 benefits and jubilee awards) are recognized in operating costs. Other provisions are recognized in other operating expenses or financial costs, depending on the circumstances under which the liability occurred.

Liabilities

Liabilities (with an exception of financial liabilities) are measured 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 of a given period (less applicable taxes) which arose over the performance of ordinary business activities of the Issuer and which result in an increase in equity, however differing from that resulting from payments done by the shareholders.

Sales of goods and products

The amount of revenues resulting from the transactions is 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 includes costs directly associated with them, and a reasonable part of indirect costs.

Costs are settled on a monthly basis

Moreover, the Issuer’s financial result depends on:

- other operating income and costs indirectly associated with the activity of an entity in terms of: profits and losses on disposal of non-financial fixed assets, revaluation of non-financial assets, creation and release of provisions for future risks, penalties and damages, donations, etc.

- financial revenues and costs arising from: dividends, interests, foreign exchange differences, revaluation of investments, profits and losses on investments.

Tax burdens

Gross financial result is adjusted for:

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(Unless otherwise stated, all figures are expressed in thousand PLN)

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

Deferred income tax is established in respect of the temporary differences between the value of assets and liabilities recognized in the books of account, and their tax value deductible in future. Deferred tax assets are established with 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 provisions 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 provisions regarding the settlement of equity items are recognized in the result of a current period.

Cash flow statement

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

Profit per share

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

In the financial statement, the Profit and Loss Account is presented by function.

The financial statement has been restated to ensure comparability of data in connection with the amendments to the Accounting Act in terms of the presentation of own shares in the balance sheet and the statement of changes in equity. A list and explanation of the differences resulting from adjustments to accounting policies or corrections of errors, if any, are included in additional notes no 17 and 18 in the Additional Explanatory Notes.

There were no business combinations in the reporting period.

3. Composition of the Company’s management and supervisory bodies

Management Board of LSI Software S.A.

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 Czwojdziński – Member of the Management Board
- Henryk Nester – Member of the Management Board

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

As at 31 December 2016, the composition of LSI Software S.A. Management Board was as follows:
- Bartłomiej Grduszak – President of the Management Board
- Michał Czwojdziński – Member of the Management Board
- Henryk Nester – Member of the Management Board
- Grzegorz Strąk – Member of the Management Board

Supervisory Board of LSI Software S.A.

As at 1 January and 31 December 2016, the composition of LSI Software S.A. Supervisory Board was as follows:
- Grzegorz Siewiera – Chairman of the Supervisory Board
- Krzysztof Wolski – Vice-Chairman 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 accompanying notes are an integral part of this financial statement
4. Foreign exchange rates

Average exchange rates of PLN against EUR

<table>
<thead>
<tr>
<th>National Bank of Poland – EUR exchange rate</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Average as at 31 December</td>
<td>4,4240</td>
<td>4,2615</td>
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<tr>
<td>2. Average arithmetic mean of exchange rates at the end of each month of the year</td>
<td>4,3757</td>
<td>4,1848</td>
</tr>
<tr>
<td>3. Year’s minimum exchange rate</td>
<td>4,2355</td>
<td>3,9822</td>
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<tr>
<td>4. Year’s maximum exchange rate</td>
<td>4,5035</td>
<td>4,3580</td>
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Selected financial data containing the basic items of the financial statement are presented both in PLN and EUR. The following exchange rates were applied for the conversion of particular items:

- for the measurement of assets and liabilities – average EUR exchange rate applicable as at the last day of the period, determined by the National Bank of Poland (as at 31 December 2016 – 4,4240; as at 31 December 2015 – 4,2615);

- for the measurement of the items presented in profit and loss account and cash flow statement – EUR exchange rate being an arithmetic mean of average exchange rates determined by the National Bank of Poland, applicable as at the last day of each month of the financial year (01-12.2016 – 4,3757; 01-12.2015 – 4,1848).

5. Indication and explanation of any differences in the value of disclosed data and significant differences referring to applied accounting principles (policy) – in accordance with Par. 7 of the Regulation on the financial statements required to be disclosed in the issue prospectus

No significant differences were identified.

Prepared by:

Management
Board:

Bartłomiej Grduszak
Bartłomiej Grduszak

Dariusz Górski
Michał Czwojdziński

Henryk Nester
Grzegorz Strąk

Łódź, 28 April 2017