

Date of issue: 1 June 2017

Current report no 11/2017

**Content of the Supervisory Board's reports to be presented at the Ordinary General Meeting of ARCUS S.A. Shareholders**

Legal basis: Article 56(1) point 2 of the Act on Public Offering – Current and Periodic Information

**Content of the report:**

In addition to current report No 9/2017 of 1 June 2017, the Management Board of ARCUS S.A. ('the Company') hereby discloses the content of ARCUS S.A. Supervisory Board's reports which will be discussed at the Ordinary General Meeting of Shareholders convened for 29 June 2017.

**SIGNATURES OF PERSONS REPRESENTING THE COMPANY:**

**Michał Czeredys** – President of the Management Board

**Rafał Czeredys** – Member of the Management Board

## Assessment of the situation of ARCUS S.A. in 2016 carried out by the Supervisory Board

### 1. Assessment of the situation of ARCUS S.A. in 2016 carried out by the Supervisory Board

The Supervisory Board of ARCUS S.A. with its registered office in Warsaw (**‘the Company’**), in accordance with the corporate governance rules set forth in the document: ‘Best Practice of WSE Listed Companies’, hereby discloses the report on the assessment of the situation of the Company in 2016 carried out by the Company’s Supervisory Board.

In the financial year 2016, the Supervisory Board of ARCUS S.A. monitored the Company’s activities on a regular basis and periodically reviewed and evaluated the implementation of the Company’s strategy in the following areas:

- implementation of budget assumptions and the Company’s development strategy,
- assessment of the internal control system and the risk management system,
- significant legal and operational risks,
- the liquidity of the Company, in particular with regard to the sources of financing of current operations,
- evaluation of human resources in respect of assuring the continuity of the Company’s operations, growth opportunities and cost structure.

The Supervisory Board of ARCUS S.A., acting pursuant to Art. 382.3 read with Art. 395.2.1 of the Commercial Companies Code, has reviewed the documents prepared by the Management Board of the Company, including the Management Board’s report on ARCUS S.A. activities in 2016 and the separate financial statement of ARCUS S.A. for the period of 1 January 2016 – 31 December 2016.

On the basis of the financial statements presented by the Management Board, the opinion of the independent auditor on the audit of the financial statement, the Supervisory Board presents below the assessment of ARCUS S.A. situation in 2016.

In 2016, the Company generated the sales revenues in the amount of PLN 97.79 million which marked a decline of PLN 43.54 million (30.81%) as compared to the corresponding period last year. Gross profit on sales amounted to PLN 22.90 million which represents a decrease by PLN 9.65 million (29.65%) comparing to preceding year. The achieved gross margin on sales in 2016 amounted to 23.42% marking a growth of 2.09 pp compared to previous year. In 2016, the Company reported a negative financial result on operations in the amount of PLN 2.98 million, negative gross financial result in the amount of PLN 4.07 million and a net loss of PLN 3.34 million. Compared to 2015, however, the improvement in results in relation to the gross margin should be highlighted.

In terms of balance sheet data, the balance sheet total decreased by PLN 0.96 million (0.86%). On the assets side, an increase in fixed assets by PLN 4.73 million (8.61%) was recorded. The increase was mainly related to financial assets held to maturity (bonds of a subsidiary). Current assets decreased by PLN 5.69 million (9.95%) as a result of a decrease in inventory by PLN 2.67 million (22.21%) and in cash by PLN 3.65 million (87.32%).

On the liabilities side, a decrease in equity by PLN 3.34 million (5%) was recorded which primarily arises from the net loss recognized in 2016. There has been a reduction in long-term liabilities by the amount of PLN 1.05 million (27.2%) and an increase in short-term trade and other liabilities from the level of PLN 28.39 million in 2015 to PLN 37.77 million in 2016, which marked a growth by PLN 9.38 million (33.04%). The short-term debt decreased by PLN 3.40 million (from PLN 9.11 million in 2015 to PLN 2.71 million in 2016).

After analyzing the Company’s financial statement and the Management Board’s report on the Company’s activities in 2016, the Supervisory Board of the Company states that the assumptions for the year 2016 have been predominantly implemented. The situation of the Company, considering the one-off events described in the financial statement (revaluation write-downs on inventories and receivables), did not deteriorate significantly, which was ensues from the development of the company in its core specialization while maintaining its policy of operations diversification. The reduction in cash and credits, as well as financing based on the medium and short-term instruments performed in 2016 and representing the Company’s liquidity, shall be – apart from sales capability – one of the most important areas of

concern and assessment within the development policy of Arcus Group. The areas which were subject to a thorough assessment of the Supervisory Board were: liquidity situation of the Company, the Group's organizational structure and the situation of a dispute with Energa Operator. According to the cash flow statement, the Company closed the financial year 2016 with a negative change in cash.

In the reporting period, the Supervisory Board – within its competences – applied the corporate governance rules applicable to joint stock companies listed on the stock exchange and set forth in the Document: 'Best Practice of WSE Listed Companies'. The Supervisory Board executed its activities in accordance with the Rules of the Supervisory Board available on ARCUS S.A. website.

Throughout the year 2016, within the structure of the Supervisory Board an Audit Committee has been operating. The Audit Committee exercised constant supervision over the Company's internal control and risk management systems. Other Members of the Supervisory Board were provided by the Company's Management Board, with the regular and comprehensive information on all important matters concerning the business operations, risks associated with these operations and on methods of mentioned risks management.

In terms of financial statements preparation, the internal control in the Company is exercised through the activities carried out jointly by the President of the Management Board (who supervises the financial and accounting policies of the Company) and the Financial Director (performing the functions of a Chief Accountant). The internal control system applied by the Company is aimed at:

- ensuring the correctness of the accounting documents entered into the financial and accounting system of the Company,
- limiting an access to the system (which is associated with granted authorizations),
- adjusting the system to applied internal control procedures (with the consideration of their influence on the correctness of collected data).

Additionally, the Company applies a multi-level acceptance system for cost invoices, aimed at preventing the erroneous classification of invoices and the distortion of the financial result of the Company. The system for the control of current balances of dues applied by the Company within the internal control processes, is aimed at preventing erroneous recognition of these items in the balance sheet. Both the half-yearly and annual financial statements, in accordance with the applicable law provisions, shall be audited and reviewed by the certified auditor. In opinion of the Supervisory Board, the above described internal control system of the Company, effectively prevents the risk of an erroneous assessment of the financial position of the Company.

The Supervisory Board verified the processes executed in the Company in terms of their compliance with the applicable laws and internal regulations. The Supervisory Board exercised the supervision, among other, over the services provided by the external auditors, particularly in terms of their independency.

## **2. Assessment of the risk management system**

In the risk management processes, the statutory bodies of the Company shall exercise the most important functions:

- the Management Board,
- the Supervisory Board.

The Supervisory Board is kept informed of the most important decisions and gives it consent and opinions on the activities of the Management Board in this regard. Members of the Management Board shall be responsible for individual areas of the Company's operations. Monitoring of particular types of risks shall be the responsibility of Directors of individual departments, who report directly to the Members of the Management Board. Financial Department shall coordinate the risk management processes. The Management Board analyses the threats and potential risk areas in a continuous manner as well as adopts appropriate remedial measures.

Due to the nature of performed operating activities, the Company shall be exposed to the following types of risk:

- Currency risk. The currency risk arises from the nature of import activities with regard to the goods from EUR and USD zones which are afterwards sold on the domestic market in PLN. Management of currency market shall particularly refer to the process of optimization of the purchase of goods and services and payment terms.
- Interest rate risk. This risk applies mainly to minimizing the risk associated with the use of financial instruments (leasing, credit) for financing the long-term outsourcing agreements (e.g. lease of the equipment for clients). Available funds are invested in secure financial instruments with a maturity of up to one year.
- Credit risk. Credit risk primarily relates to such classes of assets as: receivables, loans granted, cash and bank deposits, short-term financial assets. Surplus cash is invested only in instruments and entities of high financial reliability.
- Risk related to financial assets held - liquidity management - covers the following areas: continuous monitoring of trade liabilities and receivables, cash flow forecasting.
- Legal risk. Risks related to legal disputes, which despite of the Company's credible justification for presented judgments, indicates the element of uncertainty as to the final settlements.

The Supervisory Board positively assesses the risk management system of ARCUS S.A..

### 3. Assessment of the internal control system

Current internal control in the Company is exercised on an ongoing basis by the employees of all organizational units. Mentioned control shall be mainly associated with the analysis of the compliance of decisions undertaken and operational activities performed, with the internal procedures. The internal control process is supervised by the Management Board, and exercised by the managers and directors of individual organizational units, particularly in the financial department. The activities ensuring the effectiveness of control mechanisms are being constantly undertaken by the Management Board. Areas which are likely to result in certain complications in future, are being identified in a continuous manner. In opinion of the Supervisory Board, the internal control system in ARCUS S.A. is functioning properly.

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| 1. Marek Czeredys – Chairman of the Supervisory Board      | ..... |
| 2. Tomasz Konewka – Vice-Chairman of the Supervisory Board | ..... |
| 3. Leszek Lechowski - Member of the Supervisory Board      | ..... |
| 4. Krzysztof Przybył - Member of the Supervisory Board     | ..... |
| 5. Michał Łotoszyński - Member of the Supervisory Board    | ..... |

## Assessment of the situation of ARCUS GROUP in 2016 carried out by the Supervisory Board

### 1. Assessment of the situation of ARCUS GROUP in 2016 carried out by the Supervisory Board

The Supervisory Board of ARCUS S.A. with its registered office in Warsaw (**‘the Company’**), in accordance with the corporate governance rules set forth in the document: ‘Best Practice of WSE Listed Companies’, hereby discloses the report on the assessment of the situation of Arcus Group in 2016 carried out by the Company’s Supervisory Board.

In the financial year 2016, the Supervisory Board of ARCUS S.A. supervised, on a regular basis, the implementation of the Capital Group’s strategy as regards:

- implementation of budget assumptions and long-term plans,
- implementation of Group’s development strategy,
- impact of market changes and methods of Group’s adaptation to external factors,
- purposefulness and efficiency of investment expenditures,
- products and services development programs,
- assessment of the internal control and risk management systems of the Group,
- use of the potential and synergy effects within the Group.

The analysis of the numbers and indicators presented in the annual financial statement as well as in the Management Board’s report on the Capital Group’s activities in 2016 allows to draw the following conclusions:

- sales revenues of the Group amounted to PLN 121 million which marks a decline of PLN 61 million (33.38%) comparing to 2015,
- Group reported a loss on operating activities in the amount of PLN 3 243 thousand, as compared to a net profit on operating activities in the amount of PLN 2 983 thousand reported in 2015 (decrease by PLN 6.2 million – 208.72%)
- net financial result (net loss) attributable to the Shareholders of a Dominant Entity amounted to PLN 5 220 thousand which represents a decrease by 6.98 million (397.27%) as compared to 2015,
- balance sheet total as at the end of 2016 was equal to PLN 102.7 million.

After analyzing the Group’s annual consolidated financial statement and the Management Board’s report on Group’s activities in 2016, the Supervisory Board notes that attention should be given to a decrease of financial results reported in 2016 in relation to those generated in 2015.

In the reporting period, the Supervisory Board – within its competences – applied the corporate governance rules applicable to joint stock companies listed on the stock exchange and set forth in the Document: ‘Best Practice of WSE Listed Companies’. The Supervisory Board executed its activities in accordance with the Rules of the Supervisory Board available on ARCUS S.A. website.

Throughout the year 2016, within the structure of the Supervisory Board an Audit Committee has been operating. The Audit Committee exercised constant supervision over the Company’s internal control and risk management systems. Other Members of the Supervisory Board were provided by the Company’s Management Board, with the regular and comprehensive information on all important matters concerning the business operations, risks associated with these operations and on methods of mentioned risks management.

In terms of financial statements preparation, the internal control in the Company is exercised through the activities carried out jointly by the President of the Management Board (who supervises the financial and accounting policies of the Company) and the Financial Director (performing the functions of a Chief Accountant). The internal control system applied by the Group is aimed at:

- ensuring the correctness of the accounting documents entered into the financial and accounting system of the Company,

- limiting an access to the system (which is associated with granted authorizations),
- adjusting the system to applied internal control procedures (with the consideration of their influence on the correctness of collected data).

Additionally, the Group applies a multi-level acceptance system for cost invoices, aimed at preventing the erroneous classification of invoices and the distortion of the financial result of the Group. The system for the control of current balances of dues applied by the Group within the internal control processes, is aimed at preventing erroneous recognition of these items in the balance sheet. Both the half-yearly and annual financial statements, in accordance with the applicable law provisions, shall be audited and reviewed by the certified auditor. In opinion of the Supervisory Board, the above described internal control system of the Group, effectively prevents the risk of an erroneous assessment of the financial position of the Group.

The Supervisory Board verified the processes executed in the Group in terms of their compliance with the applicable laws and internal regulations. The Supervisory Board exercised the supervision, among other, over the services provided by the external auditors, particularly in terms of their independency.

## **2. Assessment of the risk management system**

In the risk management processes, the statutory bodies of the Group's companies – that is: Management Board and Supervisory Boards, shall exercise the most important functions. The Supervisory Board is kept informed of the most important decisions and gives it consent and opinions on the activities of the Management Board in this regard. Members of the Management Board shall be responsible for individual areas of the Company's operations. Monitoring of particular types of risks shall be the responsibility of Directors of individual departments, who report directly to the Members of the Management Board. Financial Department shall coordinate the risk management processes. The Management Board analyses the threats and potential risk areas in a continuous manner as well as adopts appropriate remedial measures.

Due to the nature of performed operating activities, the Group shall be exposed to the following types of risk:

- Currency risk. The currency risk arises from the nature of import activities with regard to the goods from EUR and USD zones which are afterwards sold on the domestic market in PLN. Management of currency market shall particularly refer to the process of optimization of the purchase of goods and services and payment terms.
- Interest rate risk. This risk applies mainly to minimizing the risk associated with the use of financial instruments (leasing, credit) for financing the long-term outsourcing agreements (e.g. lease of the equipment for clients). Available funds are invested in secure financial instruments with a maturity of up to one year.
- Credit risk. Credit risk primarily relates to such classes of assets as: receivables, loans granted, cash and bank deposits, short-term financial assets. Surplus cash is invested only in instruments and entities of high financial reliability.
- Risk related to financial assets held - liquidity management - covers the following areas: continuous monitoring of trade liabilities and receivables, cash flow forecasting.
- Legal risk. Risks related to legal disputes, which despite of the Company's credible justification for presented judgments, indicates the element of uncertainty as to the final settlements.

The Supervisory Board positively assesses the risk management system of ARCUS Group.

## **3. Assessment of the internal control system**

Current internal control in the Group is exercised on an ongoing basis by the employees of all organizational units. Mentioned control shall be mainly associated with the analysis of the compliance of decisions undertaken and operational activities performed, with the internal procedures. The internal control process is supervised by the Management Board and Management Boards of subsidiary companies, and exercised by the managers and directors of individual organizational units, particularly in the financial department. The activities ensuring the effectiveness of control mechanisms are being constantly undertaken by the Management Board and Management Boards of subsidiary

companies. Areas which are likely to result in certain complications in future, are being identified in a continuous manner. In opinion of the Supervisory Board, the internal control system in ARCUS Group is functioning properly.

1. Marek Czeredys – Chairman of the Supervisory Board .....
2. Tomasz Konewka – Vice-Chairman of the Supervisory Board .....
3. Leszek Lechowski - Member of the Supervisory Board .....
4. Krzysztof Przybył - Member of the Supervisory Board .....
5. Michał Łotoszyński - Member of the Supervisory Board .....

## **1. Report of the Supervisory Board on the assessment of the separate financial statement of ARCUS S.A. for the financial year ended on 31 December 2016 and the Management Board's report on ARCUS S.A. activities in 2016**

### **1.1. Assessment of the separate financial statement for the year 2016**

Pursuant to Art. 382.3 of the Commercial Companies Code, the Supervisory Board of ARCUS S.A. has carried out the assessment of:

- the separate financial statement for the year 2016 prepared in accordance with the International Financial Reporting Standards, consisting of:

- statement of financial position prepared as at 31 December 2016 with total assets and liabilities of PLN 111 169 thousand;
- profit and loss account for the period of 1 January 2016 – 31 December 2016 with a net loss at the amount of PLN 3 341 thousand;
- statement of comprehensive income for the period of 1 January 2016 – 31 December 2016, with a loss of PLN 3 341 thousand;
- statement of changes in equity for the period of 1 January 2016 – 31 December 2016, disclosing a decrease in equity by the amount of PLN 3 341 thousand;
- cash-flow statement for the period of 1 January 2016 – 31 December 2016, disclosing a decrease in cash by the amount of PLN 3 646 thousand;
- additional information and explanations;

in terms of its compliance with books of account, documents and facts.

- the Management Board's report on activities of ARCUS S.A. in 2016.

### **1.2. Opinion and report of an entity authorized to audit the financial statements**

TPA Horwath Horodko Audit Sp. z o.o. (currently TPA Sp. z o.o. sp. k.) as an entity authorized to audit the financial statements, was selected by the Company's Management Board to audit ARCUS S.A. annual separate financial statement. The Supervisory Board has reviewed the opinions and reports of certified auditors regarding the financial statement.

In accordance with the content of the opinion of an entity auditing the financial statement for the year 2016, the Company's financial statement covering figures and relevant explanations, presents truly and clearly all the information significant for the assessment of the financial position of ARCUS S.A. as at 31 December 2016 as well as its financial result for the financial year ended on 31 December 2016.

In accordance with the content of the opinion of the independent certified auditor, the financial statement has been prepared, in all material respects, in accordance with accounting principles arising from the International Accounting Standards, International Financial Reporting Standards and associated interpretations announced in the form of the European Commission's regulations, and in the matters not regulated by mentioned Standards – in accordance with the Accounting Act and implementation regulations issued under this Act as well as on the basis of properly kept books of account. In accordance with the opinion of the independent certified auditor, the financial statement complies with the law provisions affecting the content of the financial statement and with the provisions of the Company's Articles of Association.

In opinion of the independent certified auditor, the report on the activities of ARCUS S.A. is complete within the meaning of Art. 49.2 of the Accounting Act and the information included in this report shall comply with the audited financial statement and shall be in line with the provisions of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on conditions for recognition as



equivalent of the information required by laws of non-European Union member states (2009 Journal of Laws No. 33, item 259, as amended). The auditor pointed out that consideration should be given to the dispute between ARCUS S.A. and Energa Operator S.A. which was described in detail in the financial statement.

### 1.3. Management and Supervisory Board

#### Management Board

As at the day of the financial statement hereof publication, the composition of the Management Board was as follows:

- Mr. Michał Czeredys – President of the Management Board,
- Mr. Rafał Czeredys – Member of the Management Board.

As 1 January 2016, the composition of the Management Board was as follows:

- Mr. Michał Czeredys – President of the Management Board,
- Mr. Michał Łotoszyński – Vice-President of the Management Board.

The Supervisory Board, at its meeting on 21 January 2016, appointed Mr. Rafał Czeredys to the position of Member of the Management Board. Mr. Michał Łotoszyński resigned from the position of Vice-President of the Management Board on 31 August 2016.

As at 31 December 2016, the composition of the Management Board was as follows:

- Mr. Michał Czeredys – President of the Management Board,
- Mr. Rafał Czeredys – Member of the Management Board.

#### Supervisory Board

In accordance with Articles of Association of ARCUS S.A., the Company's Supervisory Board shall be composed of 5 to 10 members.

As at 31 December 2016 and as at the date of publication of the financial statement hereof, the composition of the Supervisory Board was as follows:

- Marek Czeredys - Chairman of the Supervisory Board,
- Tomasz Konewka – Vice-Chairman of the Supervisory Board,
- Krzysztof Franciszek Przybył - Member of the Supervisory Board,
- Bogusław Wasilewko - Member of the Supervisory Board,
- Leszek Lechowski - Member of the Supervisory Board,
- Michał Łotoszyński - Member of the Supervisory Board.

Mr. Michał Łotoszyński was appointed Member of the Supervisory Board on the basis of the Resolution of the Extraordinary General Meeting of Shareholders held on 31 August 2016 (current report No 20).

As 1 January 2016, the composition of the Supervisory Board was as follows:

- Marek Czeredys - Chairman of the Supervisory Board,
- Tomasz Konewka – Vice-Chairman of the Supervisory Board,
- Krzysztof Franciszek Przybył - Member of the Supervisory Board,
- Bogusław Wasilewko - Member of the Supervisory Board,
- Leszek Lechowski - Member of the Supervisory Board,

Throughout the year 2016, within the structure of the Supervisory Board an Audit Committee has been operating. In the period of 1 January 2016 – 25 January 2016, the composition of the Audit Committee was as follows:

- Tomasz Konewka – Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Bogusław Wasilewko - Member of the Committee.

By the resolution of the Supervisory Board, on 26 January 2016 Mr. Leszek Lechowski was appointed to the Audit Committee. Accordingly, in the period of 26 January 2016 – 30 August 2016, the composition of the Audit Committee was as follows:

- Tomasz Konewka – Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Bogusław Wasilewko - Member of the Committee,
- Leszek Lechowski - Member of the Committee.

By resolution of the Supervisory Board, on 31 August 2016 Mr. Michał Łotoszyński was appointed to the Audit Committee as a Chairman. Accordingly, in the period of 31 August 2016 – 26 October 2016, the composition of the Audit Committee was as follows:

- Michał Łotoszyński - Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Tomasz Konewka – Member of the Committee,
- Bogusław Wasilewko - Member of the Committee,
- Leszek Lechowski - Member of the Committee.

By the resolution of the Supervisory Board, on 27 October 2016 the following composition of the Audit Committee was determined:

- Michał Łotoszyński - Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Tomasz Konewka – Member of the Committee.

## **2. Conclusions arising from the assessment of the financial statement of ARCUS S.A. for the year 2016 and the Management Board's report on ARCUS S.A. activities in 2016**

In 2016, the Company generated the sales revenues in the amount of PLN 97.79 million which marked a decline of PLN 43.54 million (30.81%) as compared to the corresponding period last year. Gross profit on sales amounted to PLN 22.90 million which represents a decrease by PLN 9.65 million (29.65%) comparing to preceding year. The achieved gross margin on sales in 2016 amounted to 23.42% marking a growth of 2.09 pp compared to previous year. In 2016, the Company reported a negative financial result on operations in the amount of PLN 2.98 million, negative gross financial result in the amount of PLN 4.07 million and a net loss of PLN 3.34 million. Compared to 2015, however, the improvement in results in relation to the gross margin should be highlighted.

In terms of balance sheet data, the balance sheet total decreased by PLN 0.96 million (0.86%). On the assets side, an increase in fixed assets by PLN 4.73 million (8.61%) was recorded. The increase was mainly related to financial assets held to maturity (bonds of a subsidiary). Current assets decreased by PLN 5.69 million (9.95%) as a result of a decrease in inventory by PLN 2.67 million (22.21%) and in cash by PLN 3.65 million (87.32%).

On the liabilities side, a decrease in equity by PLN 3.34 million (5%) was recorded which primarily arises from the net loss recognized in 2016. There has been a reduction in long-term liabilities by the amount of PLN 1.05 million (27.2%) and an increase in short-term trade and other liabilities from the level of PLN 28.39 million in 2015 to PLN 37.77

million in 2016, which marked a growth by PLN 9.38 million (33.04%). The short-term debt decreased by PLN 3.40 million (from PLN 9.11 million in 2015 to PLN 2.71 million in 2016).

After analyzing the Company's financial statement and the Management Board's report on the Company's activities in 2016, the Supervisory Board of the Company states that the assumptions for the year 2016 have been predominantly implemented. The situation of the Company, considering the one-off events described in the financial statement (revaluation write-downs on inventories and receivables), did not deteriorate significantly, which was ensues from the development of the company in its core specialization while maintaining its policy of operations diversification. The reduction in cash and credits, as well as financing based on the medium and short-term instruments performed in 2016 and representing the Company's liquidity, shall be – apart from sales capability – one of the most important areas of concern and assessment within the development policy of Arcus Group.

### **3. The Supervisory Board's position on ARCUS S.A. compliance with corporate governance rules**

The Supervisory Board states, that ARCUS S.A. complies with corporate governance rules implemented by the Resolution of the Warsaw Stock Exchange Supervisory Board of 13 October 2015 "Best Practice of WSE Listed Companies 2016" [https://static.gpw.pl/pub/files/PDF/RG/DPSN2016\\_EN.pdf](https://static.gpw.pl/pub/files/PDF/RG/DPSN2016_EN.pdf)

Report on compliance by the ARCUS S.A. with recommendations and rules set forth in above mentioned document is available on the Company's website.

### **4. Distribution of profit for the year 2016**

The Supervisory Board reviewed the proposal of ARCUS S.A. Management Board as regards financing the loss for the year 2016.

### **5. The Supervisory Board requests:**

The Company's Supervisory Board requests the Ordinary General Meeting of ARCUS S.A. Shareholders to:

- approve the Management Board's report on the Company's activities in 2016,
- approve the annual separate financial statement of ARCUS S.A. for the year 2016,
- approve the proposal of ARCUS S.A. Management Board as regards financing the loss for the year 2016.

1. Marek Czeredys – Chairman of the Supervisory Board .....
2. Tomasz Konewka – Vice-Chairman of the Supervisory Board .....
3. Leszek Lechowski - Member of the Supervisory Board .....
4. Krzysztof Przybył - Member of the Supervisory Board .....
5. Michał Łotoszyński - Member of the Supervisory Board .....

## Report of the Supervisory Board on the assessment of the financial statement of ARCUS Group for the financial year ended on 31 December 2016 and the Management Board's report on ARCUS Group's activities in 2016

### 1. Assessment of the consolidated financial statement for the year 2016

Structure of ARCUS Capital Group

ARCUS Capital Group is composed of:

- **ARCUS S.A.** – Dominant Entity with its registered office in Warsaw. The company is recorded by the District Court for the Capital City of Warsaw (12<sup>th</sup> Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000271167. The development of comprehensive, integrated document and correspondence management systems shall be the core business activity of the Company.
- **T-matic Systems S.A.** with its registered office in Warsaw. The company is recorded by the District Court for the Capital City of Warsaw (13<sup>th</sup> Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000444112. Telematics services for the passenger and freight transportation, power sector, heat engineering, gas and waterworks industry is the core business activity of the Company. As at balance sheet day ARCUS S.A. holds 74.73% shares of T-matic.
- **DocuSoft Sp. z o.o.** with its registered office in Bielsko-Biala, 153 Warszawska Street. The company is recorded by the District Court for the City of Bielsko-Biala (8<sup>th</sup> Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000204275. Manufacture of software and implementation of workflow management systems is the core business activity of the Company. This subsidiary is subject to consolidation as from 24 May 2011. As at balance sheet day ARCUS S.A. holds 86.96% shares of DocuSoft.
- **Durau Sp. z o.o.** with its registered office in Wrocław, 8-11 Mikołaja Street. The company is recorded by the District Court for the Wrocław (6<sup>th</sup> Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000490845. The main activity of this Company is construction of a nationwide purchasing group for small and medium-sized businesses in the media, energy, fuels and services sectors.
- **Arcus Systemy Informatyczne Sp. z o.o.** (ASI, previously Syntea Business Solutions Sp. z o.o.) with its registered office in Lublin, 9a Wojciechowska Street; recorded by the District Court for the City of Lublin (6<sup>th</sup> Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000031806. The company operates in the IT market since 1996 and provides consultancy, implementation and maintenance services for public entities and companies in the field of Enterprise Resource Planning (ERP). As at balance sheet day ARCUS S.A. holds 53.00% shares of ASI.
- **Geotik Sp. z o.o.** with its registered office in Warsaw. The company is recorded by the District Court for the Capital City of Warsaw (12<sup>th</sup> Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000444112. Telematics services for the passenger and freight transportation, power sector, heat engineering, gas and waterworks industry is the core business activity of the Company. As at balance sheet day T-matic Systems S.A. holds 66% shares of Geotik Sp. z o.o.
- **Arcus Kazakhstan Sp. z o.o.** with its registered office in Astana, Kazakhstan.

Pursuant to Art. 382.3 of the Commercial Companies Code, the Supervisory Board of ARCUS S.A. has carried out the assessment of:

- the consolidated financial statement for the year 2016 prepared in accordance with the International Financial Reporting Standards, consisting of:

- consolidated balance sheet prepared as at 31 December 2016 with total assets and liabilities of PLN 102 114 thousand;

- consolidated profit and loss account for the period of 1 January 2016 – 31 December 2016 with a net loss attributable to the shareholders of a Dominant Entity in the amount of PLN 5 220 thousand;
- consolidated statement of comprehensive income for the period of 1 January 2016 – 31 December 2016, with a net loss attributable to the shareholders of a Dominant Entity in the amount of PLN 5 220 thousand;
- statement of changes in consolidated equity for the period of 1 January 2016 – 31 December 2016, disclosing a decrease in equity by the amount of PLN 5 262 thousand;
- consolidated cash-flow statement for the period of 1 January 2016 – 31 December 2016, disclosing a decrease in cash by the amount of PLN 3 300 thousand;
- additional information and explanations with regard to compliance with books of account, documents and facts,

- the Management Board's report on activities ARCUS Group's in 2016.

## 2. Opinion and report of an entity authorized to audit the financial statements

TPA Horwath Horodko Audit Sp. z o.o. (currently TPA Sp. z o.o. sp. k.) as an entity authorized to audit the financial statements, was selected by the Company's Management Board to audit the annual separate and consolidated financial statements of ARCUS S.A. The Supervisory Board has reviewed the opinions and reports of certified auditors regarding the financial statement.

In accordance with the content of the opinion of an entity auditing the financial statement for the year 2016, the financial statement of the Group covering figures and relevant explanations, presents truly and clearly all the information significant for the assessment of the financial position of ARCUS Group as at 31 December 2016 as well as its financial result for the financial year ended on 31 December 2016.

In accordance with the content of the opinion of the independent certified auditor, the financial statement has been prepared, in all material respects, in accordance with accounting principles arising from the International Accounting Standards, International Financial Reporting Standards and associated interpretations announced in the form of the European Commission's regulations, and in the matters not regulated by mentioned Standards – in accordance with the Accounting Act and implementation regulations issued under this Act.

In accordance with the opinion of the independent certified auditor, the financial statement complies with the law provisions affecting the content of the consolidated financial statement.

In opinion of the independent certified auditor, the report on the activities of ARCUS Group is complete within the meaning of Art. 49.2 of the Accounting Act and the information included in this report shall comply with the audited financial statement and shall be in line with the provisions of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on conditions for recognition as equivalent of the information required by laws of non-European Union member states (2009 Journal of Laws No. 33, item 259, as amended). The auditor pointed out that consideration should be given to the dispute between consortium ARCUS S.A./T-matic and Energa-Operator S.A. described in detail in the financial statement as well as to the issues associated with impairment of goodwill in respect of estimates and uncertainty in terms of implementation of assumed forecasts.

## 3. Management and Supervisory Board of ARCUS S.A.

### Management Board

As at the day of the financial statement hereof publication, the composition of the Management Board was as follows:

- Mr. Michal Czeredys – President of the Management Board,
- Mr. Rafal Czeredys – Member of the Management Board.

As 1 January 2016, the composition of the Management Board was as follows:

- Mr. Michał Czeredys – President of the Management Board,
- Mr. Michał Łotoszyński – Vice-President of the Management Board.

The Supervisory Board, at its meeting on 21 January 2016, appointed Mr. Rafał Czeredys to the position of Member of the Management Board. Mr. Michał Łotoszyński resigned from the position of Vice-President of the Management Board on 31 August 2016.

As at 31 December 2016, the composition of the Management Board was as follows:

- Mr. Michał Czeredys – President of the Management Board,
- Mr. Rafał Czeredys – Member of the Management Board.

### **Supervisory Board**

In accordance with Articles of Association of ARCUS S.A., the Company's Supervisory Board shall be composed of 5 to 10 members.

As at 31 December 2016 and as at the date of publication of the financial statement hereof, the composition of the Supervisory Board was as follows:

- Marek Czeredys - Chairman of the Supervisory Board,
- Tomasz Konewka – Vice-Chairman of the Supervisory Board,
- Krzysztof Franciszek Przybył - Member of the Supervisory Board,
- Bogusław Wasilewko - Member of the Supervisory Board,
- Leszek Lechowski - Member of the Supervisory Board,
- Michał Łotoszyński - Member of the Supervisory Board.

Mr. Michał Łotoszyński was appointed Member of the Supervisory Board on the basis of the Resolution of the Extraordinary General Meeting of Shareholders held on 31 August 2016 (current report No 20).

As 1 January 2016, the composition of the Supervisory Board was as follows:

- Marek Czeredys - Chairman of the Supervisory Board,
- Tomasz Konewka – Vice-Chairman of the Supervisory Board,
- Krzysztof Franciszek Przybył - Member of the Supervisory Board,
- Bogusław Wasilewko - Member of the Supervisory Board,
- Leszek Lechowski - Member of the Supervisory Board,

Throughout the year 2016, within the structure of the Supervisory Board an Audit Committee has been operating. In the period of 1 January 2016 – 25 January 2016, the composition of the Audit Committee was as follows:

- Tomasz Konewka – Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Bogusław Wasilewko - Member of the Committee.

By the resolution of the Supervisory Board, on 26 January 2016 Mr. Leszek Lechowski was appointed to the Audit Committee. Accordingly, in the period of 26 January 2016 – 30 August 2016, the composition of the Audit Committee was as follows:

- Tomasz Konewka – Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Bogusław Wasilewko - Member of the Committee,
- Leszek Lechowski - Member of the Committee.

By resolution of the Supervisory Board, on 31 August 2016 Mr. Michał Łotoszyński was appointed to the Audit Committee as a Chairman. Accordingly, in the period of 31 August 2016 – 26 October 2016, the composition of the Audit Committee was as follows:

- Michał Łotoszyński - Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Tomasz Konewka – Member of the Committee,
- Bogusław Wasilewko - Member of the Committee,
- Leszek Lechowski - Member of the Committee.

By the resolution of the Supervisory Board, on 27 October 2016 the following composition of the Audit Committee was determined:

- Michał Łotoszyński - Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Tomasz Konewka – Member of the Committee.

#### **4. Conclusions arising from the assessment of the financial statement of ARCUS Group for the year 2016 and the Management Board's report on ARCUS Group's activities in 2016**

The Supervisory Board, after reviewing the Group's financial statement for the year 2016 and on the basis of the content of the opinion of the certified auditor, states that the data included in ARCUS Group's annual financial statement present truly and clearly the financial position of the Group and reliably reflect all the information significant for the assessment of the economic result, profitability and cash flow in the audited period. Financial information included in the Management Board's report on the Group's activities in 2016 ensues directly from the audited annual financial statement and complies with this statement.

The analysis of the figures and indicators presented in the annual financial statement as well as in the Management Board's report on the Group's activities in 2016 allows to draw the following conclusions:

- the sales revenues reported by the Group amounted to PLN 121 029 thousand which represents a decrease by 33.38% comparing to previous year,
- loss on operating activities reported by the Group amounted to PLN 3 243 thousand,
- net loss incurred by the Group, attributable to the Shareholders of a Dominant Entity amounted to PLN 5 220 thousand,
- the balance sheet total at the end of 2016 amounted to PLN 102 114 thousand.

After analyzing the consolidated financial statement and the Management Board's report on Group's activities in 2016, the Supervisory Board states that the situation of the Group, considering the one-off events described in the financial statement (revaluation write-downs on inventories and receivables), did not deteriorate significantly in relation to 2015. The measures aimed at changing the employees' incentive system and improving the sales profitability as well as the efficiency of the commodity and warehouse management, were implemented. New business areas are being developed.

The Supervisory Board assesses the Group's financial position as relatively good, and furtherly supports the restructuring measures implemented by the Management Board. Comprehensive operations involving pro-development activities and measures aimed at reducing or adjusting the operating costs, are recognized by the Supervisory Board as the direction of further systematic improvement of economic performance and development opportunities.

#### **5. The Supervisory Board requests:**

The Company's Supervisory Board requests the Ordinary General Meeting of ARCUS S.A. Shareholders to:

- approve the Management Board's report on ARCUS Group's activities in 2016,
- approve the annual consolidated financial statement of ARCUS Group for the year 2016.

1. Marek Czeredys – Chairman of the Supervisory Board .....
2. Tomasz Konewka – Vice-Chairman of the Supervisory Board .....
3. Leszek Lechowski - Member of the Supervisory Board .....
4. Krzysztof Przybył - Member of the Supervisory Board .....
5. Michał Łotoszyński - Member of the Supervisory Board .....



**Report of the Supervisory Board on the results of assessment  
of the proposal of ARCUS S.A. Management Board  
as regards financing the loss  
for the financial year ended on 31 December 2016**

On the basis of Art. 382.3 of the Commercial Companies Code, the Supervisory Board of ARCUS S.A. ('the Company') assessed the proposal of the Company's Management Board as regards financing the loss for the year 2016 in the amount of PLN 3 341 thousand with the reserve capital of the Company.

After reviewing the Company's financial statement for the year 2016 and the opinion of the certified auditor on the audit of this financial statement, as well as having regard to the analysis of the situation and development prospects of the Company, the Supervisory Board approves the opinion of the Management Board and decides to recommend it to the Shareholders.

1. Marek Czeredys – Chairman of the Supervisory Board .....
2. Tomasz Konewka – Vice-Chairman of the Supervisory Board .....
3. Leszek Lechowski - Member of the Supervisory Board .....
4. Krzysztof Przybył - Member of the Supervisory Board .....
5. Michał Łotoszyński - Member of the Supervisory Board .....

**Report on the activities of  
the Audit Committee of ARCUS S.A. Supervisory Board in 2016**

The Supervisory Board of ARCUS S.A. with its registered office in Warsaw ('the Company') in accordance with corporate governance rules set forth in the document 'Best Practice of WSE Listed Companies 2016', hereby discloses for the attention of the Shareholders of ARCUS S.A., the report on the activities of the Audit Committee in the financial year ended on 31 December 2016.

Throughout the year 2016, within the structure of the Supervisory Board an Audit Committee has been operating. In the period of 1 January 2016 – 25 January 2016, the composition of the Audit Committee was as follows:

- Tomasz Konewka – Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Bogusław Wasilewko - Member of the Committee.

By the resolution of the Supervisory Board, on 26 January 2016 Mr. Leszek Lechowski was appointed to the Audit Committee. Accordingly, in the period of 26 January 2016 – 30 August 2016, the composition of the Audit Committee was as follows:

- Tomasz Konewka – Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Bogusław Wasilewko - Member of the Committee,
- Leszek Lechowski - Member of the Committee.

By resolution of the Supervisory Board, on 31 August 2016 Mr. Michał Łotoszyński was appointed to the Audit Committee as a Chairman. Accordingly, in the period of 31 August 2016 – 26 October 2016, the composition of the Audit Committee was as follows:

- Michał Łotoszyński - Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Tomasz Konewka – Member of the Committee,
- Bogusław Wasilewko - Member of the Committee,
- Leszek Lechowski - Member of the Committee.

By the resolution of the Supervisory Board, on 27 October 2016 the following composition of the Audit Committee was determined:

- Michał Łotoszyński - Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Tomasz Konewka – Member of the Committee.

The Audit Committee of ARCUS S.A. Supervisory Board operates in accordance with the Act of 7 May 2009 on certified auditors and their self-government bodies, entities authorised to audit financial statements and public supervision.

While assessing its activities in 2016, the Audit Committee examined the relevance and effectiveness of the activities undertaken within the framework of its competences, including in particular:

- monitoring of the financial reporting process, including monitoring of the work and independence of the entity authorized to audit financial statements,

- monitoring of the effectiveness of internal control, internal audit and risk management systems.

The subject of the regular tasks of the Audit Committee is the process of monitoring of the works associated with drafting and revision of the Company's financial statements, and therefore the Committee has cooperated with the auditor in this area on ongoing basis.

Within its statutory powers, the Audit Committee examined the independence of the auditor executing the audit of the Company's financial statements, both in relation to the Company and its managers and supervisors. The independence has been confirmed on the basis of statements made by the auditor as to the personal independence and the independence of the statutory auditor towards ARCUS S.A. The Committee has monitored the correctness of preparing the financial statements by the Company and has cooperated closely in this regard with the auditor auditing the financial statements.

In the opinion of the Audit Committee, the cooperation of auditors with the Management Board was properly performed and did not raise any objections. The Audit Committee has monitored the financial reporting process, while the relevant financial statements have been prepared, in all aspects, in accordance with accounting principles and based on properly maintained accounting records and fairly reflect business performance and the financial position of the Company. The Audit Committee has also reviewed the Reports of the Management Board on the activities of the Company, assuming that the presented figures and facts are true and fair.

The Management Board within performed operations, shall be the body responsible for risk management in the Company. Key management personnel shall be involved in the process of identifying and preventing the risks. Methods for eliminating the risks are determined on a regular basis, while the Board seeks to develop mechanisms aimed at eliminating or minimizing the occurring risks. The Board in cooperation with key managers, regularly reviews those risk factors associated with the business operations of the Company, which could have an impact on the economic and financial position of the Company. Also a periodic verification of the principles of risk management and compliance of process with accepted standards, as well as the constant analysis of risk management in terms of possible improvements, is carried out.

Due to the uncomplicated organizational structure of the Company, there is no separated Internal Audit Department in the Company, and the internal control system in the Company is performed by the Management Board, key managers and other employees within assigned duties. Control activities are carried out on a regular basis and at the stage of verification by the management of the correctness of tasks performed by subordinates, and also in the process in the development of internal procedures by taking particular care to ensure adequate control mechanisms. Identified, possible irregularities are corrected on an ongoing basis by authorized employees.

The Management Board of the Company complies properly with an obligation of internal control in relation to the preparation and disclosure of current reports and financial statements as required by law.

**Warsaw, 8 May 2017.**

#### **Signatures of Members of the Audit Committee**

- Michał Łotoszyński - Chairman of the Committee
- Marek Czeredys - Member of the Committee
- Tomasz Konewka – Member of the Committee

**Report on the activities  
of ARCUS S.A. Supervisory Board in 2016**

The Supervisory Board of ARCUS S.A. with its registered office in Warsaw ('the Company') in accordance with corporate governance rules set forth in the document 'Best Practice of WSE Listed Companies 2016', hereby discloses for the attention of the Shareholders of ARCUS S.A., the report on the activities of the Supervisory Board in the financial year ended on 31 December 2016.

**Supervisory Board**

In accordance with Articles of Association of ARCUS S.A., the Company's Supervisory Board shall be composed of 5 to 10 members.

As at 31 December 2016 and as at the date of publication of the financial statement hereof, the composition of the Supervisory Board was as follows:

- Marek Czeredys - Chairman of the Supervisory Board,
- Tomasz Konewka – Vice-Chairman of the Supervisory Board,
- Krzysztof Franciszek Przybyl - Member of the Supervisory Board,
- Bogusław Wasilewko - Member of the Supervisory Board,
- Leszek Lechowski - Member of the Supervisory Board,
- Michał Łotoszyński - Member of the Supervisory Board.

Mr. Michał Łotoszyński was appointed Member of the Supervisory Board on the basis of the Resolution of the Extraordinary General Meeting of Shareholders held on 31 August 2016 (current report No 20).

As 1 January 2016, the composition of the Supervisory Board was as follows:

- Marek Czeredys - Chairman of the Supervisory Board,
- Tomasz Konewka – Vice-Chairman of the Supervisory Board,
- Krzysztof Franciszek Przybyl - Member of the Supervisory Board,
- Bogusław Wasilewko - Member of the Supervisory Board,
- Leszek Lechowski - Member of the Supervisory Board,

Throughout the year 2016, within the structure of the Supervisory Board an Audit Committee has been operating. In the period of 1 January 2016 – 25 January 2016, the composition of the Audit Committee was as follows:

- Tomasz Konewka – Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Bogusław Wasilewko - Member of the Committee.

By the resolution of the Supervisory Board, on 26 January 2016 Mr. Leszek Lechowski was appointed to the Audit Committee. Accordingly, in the period of 26 January 2016 – 30 August 2016, the composition of the Audit Committee was as follows:

- Tomasz Konewka – Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Bogusław Wasilewko - Member of the Committee,
- Leszek Lechowski - Member of the Committee.

By resolution of the Supervisory Board, on 31 August 2016 Mr. Michał Łotoszyński was appointed to the Audit Committee as a Chairman. Accordingly, in the period of 31 August 2016 – 26 October 2016, the composition of the Audit Committee was as follows:

- Michał Łotoszyński - Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Tomasz Konewka – Member of the Committee,
- Bogusław Wasilewko - Member of the Committee,
- Leszek Lechowski - Member of the Committee.

By the resolution of the Supervisory Board, on 27 October 2016 the following composition of the Audit Committee was determined:

- Michał Łotoszyński - Chairman of the Committee,
- Marek Czeredys - Member of the Committee,
- Tomasz Konewka – Member of the Committee.

### **Report on activities and assessment of the work of ARCUS S.A. Supervisory Board in 2016**

In 2016, the Supervisory Board of ARCUS S.A. held a total of 5 meetings, four of which took place at the Company's headquarters in Warsaw and one off-site. The Supervisory Board have passed resolutions by circulation and by means of distance communication. All meetings were attended by all Board members.

In the exercise of its powers determined in the Articles of Association and the Commercial Companies Code, ARCUS S.A. Supervisory Board discussed a number of issues important for the business activity of the Company. In particular, the following matters were the subject of discussion:

- implementation of budget assumptions and assessment of financial statements,
- current financial situation of the Company,
- the Company's development strategy,
- assessment of the internal control and risk management systems,
- legal status of a dispute with Energa Operator.

Under the above-mentioned activities, the Supervisory Board adopted resolutions on the following issues:

- selection of the auditor for the audit of the separate financial statement of ARCUS S.A. and consolidated financial statement of ARCUS Group prepared as at 31 December 2016 in accordance with the International Financial Reporting Standards together with an in-depth analysis of the financial statements of subsidiaries, and reviewing the half-yearly financial statement,
- issue of opinions on draft resolutions proposed by the Management Board, which were to be discussed at the Ordinary General Meeting of the Company's Shareholders,
- analysis and evaluation of financial statements for the first half of 2016;
- approval of the report on the results of the assessment of the Management Board's report on activities of ARCUS S.A. and ARCUS Group in 2016 as well as the financial statement of the Company and the consolidated financial statement of ARCUS S.A. Capital Group for the financial year 2016,
- approval of the report of the Supervisory Board activities in 2016,
- approval of the report presenting a brief assessment of the Company's situation in 2016.

The Supervisory Board monitored the situation of the Company and gave opinions on current issues and planned actions. Throughout the reporting period, all members of the Supervisory Board remained in regular contact with ARCUS S.A. Management Board. The Supervisory Board was able to obtain from the Company's Management Board all necessary information concerning the financial situation of ARCUS S.A., projects executed by the Company and

cooperation with contractors. Consultations on matters related to particular aspects of the Company's business were carried out on a current basis. This applies particularly to the management of risks to which the Company is exposed.

While performing its duties, the Supervisory Board had an access to all documents, information, presentations and explanations presented by the Company's Management Board. Cooperation with the Management Board proceeded smoothly. Presented documentation was complete and properly prepared.

In the reporting period, the Supervisory Board – within its competences – applied the corporate governance rules applicable to joint stock companies listed on the stock exchange and set forth in the Document: 'Best Practice of WSE Listed Companies'. The Supervisory Board executed its activities in accordance with the Rules of the Supervisory Board available on ARCUS S.A. website.

Throughout the year 2016, within the structure of the Supervisory Board an Audit Committee has been operating. The Audit Committee exercised constant supervision over the Company's internal control and risk management systems. Other Members of the Supervisory Board were provided by the Company's Management Board, with the regular and comprehensive information on all important matters concerning the business operations, risks associated with these operations and on methods of mentioned risks management.

In terms of financial statements preparation, the internal control in the Company is exercised through the activities carried out jointly by the President of the Management Board (who supervises the financial and accounting policies of the Company) and the Financial Director (performing the functions of a Chief Accountant). The internal control system applied by the Company is aimed at:

- ensuring the correctness of the accounting documents entered into the financial and accounting system of the Company,
- limiting an access to the system (which is associated with granted authorizations),
- adjusting the system to applied internal control procedures (with the consideration of their influence on the correctness of collected data).

Additionally, the Company applies a multi-level acceptance system for cost invoices, aimed at preventing the erroneous classification of invoices and the distortion of the financial result of the Company. The system for the control of current balances of dues applied by the Company within the internal control processes, is aimed at preventing erroneous recognition of these items in the balance sheet. Both the half-yearly and annual financial statements, in accordance with the applicable law provisions, shall be audited and reviewed by the certified auditor. In opinion of the Supervisory Board, the above described internal control system of the Company, effectively prevents the risk of an erroneous assessment of the financial position of the Company.

The Supervisory Board verified the processes executed in the Company in terms of their compliance with the applicable laws and internal regulations. The Supervisory Board exercised the supervision, among other, over the services provided by the external auditors, particularly in terms of their independency.

### **Assessment of the risk management system**

In the risk management processes, the statutory bodies of the Company shall exercise the most important functions:

- the Management Board,
- the Supervisory Board.

The Supervisory Board is kept informed of the most important decisions and gives it consent and opinions on the activities of the Management Board in this regard. Members of the Management Board shall be responsible for individual areas of the Company's operations. Monitoring of particular types of risks shall be the responsibility of Directors of individual departments, who report directly to the Members of the Management Board. Financial Department shall coordinate the risk management processes. The Management Board analyses the threats and potential risk areas in a continuous manner as well as adopts appropriate remedial measures.

Due to the nature of performed operating activities, the Company shall be exposed to the following types of risk:

- Currency risk. The currency risk arises from the nature of import activities with regard to the goods from EUR and USD zones which are afterwards sold on the domestic market in PLN. Management of currency market shall particularly refer to the process of optimization of the purchase of goods and services and payment terms.
- Interest rate risk. This risk applies mainly to minimizing the risk associated with the use of financial instruments (leasing, credit) for financing the long-term outsourcing agreements (e.g. lease of the equipment for clients). Available funds are invested in secure financial instruments with a maturity of up to one year.
- Credit risk. Credit risk primarily relates to such classes of assets as: receivables, loans granted, cash and bank deposits, short-term financial assets. Surplus cash is invested only in instruments and entities of high financial reliability.
- Risk related to financial assets held - liquidity management - covers the following areas: continuous monitoring of trade liabilities and receivables, cash flow forecasting.
- Legal risk. Risks related to legal disputes, which despite of the Company's credible justification for presented judgments, indicates the element of uncertainty as to the final settlements.

The Supervisory Board positively assesses the risk management system of ARCUS S.A..

### 3. Assessment of the internal control system

Current internal control in the Company is exercised on an ongoing basis by the employees of all organizational units. Mentioned control shall be mainly associated with the analysis of the compliance of decisions undertaken and operational activities performed, with the internal procedures. The internal control process is supervised by the Management Board, and exercised by the managers and directors of individual organizational units, particularly in the financial department. The activities ensuring the effectiveness of control mechanisms are being constantly undertaken by the Management Board. Areas which are likely to result in certain complications in future, are being identified in a continuous manner.

In opinion of the Supervisory Board, the internal control system in ARCUS S.A. is functioning properly.

Warsaw, 8 May 2017

1. Marek Czeredys – Chairman of the Supervisory Board .....
2. Tomasz Konewka – Vice-Chairman of the Supervisory Board .....
3. Leszek Lechowski - Member of the Supervisory Board .....
4. Krzysztof Przybył - Member of the Supervisory Board .....
5. Michał Łotoszyński - Member of the Supervisory Board .....