ARCUS Spółka Akcyjna

www.arcus.pl

Consolidated financial Statement

of Arcus Group

for the period of
1 January 2016 – 31 December 2016

Warsaw, 28 April 2017

1 Data regarding the annual financial statement of ARCUS Group

1.1 SELECTED FINANCIAL DATA

	SELECTED FINANCIAL DATA	PLN THOUSAND		EUR THOUSAND	
		Year ended 31.12.2016	Year ended 31.12.2015	Year ended 31.12.2016	Year ended 31.12.2015
I	Sales revenues	121 029	181 664	27 660	43 411
II	Profit (loss) on operating activities	3 243	2 983	-741	713
III	Profit (loss) before tax	-4 410	2 218	-1 008	530
IV	Profit (loss) on consolidation	-5 512	1 389	-1 260	332
V	Profit (loss) attributable to the shareholders of a Dominant Entity	-5 220	1 756	-1 193	420
VI	EBITDA	-443	5 742	-101	1 372
VII	Comprehensive income	-5 512	1 631	-1 260	390
VIII	Comprehensive income attributable to the shareholders of a Dominant Entity	-5 220	1 998	-1 193	477
IX	Net Cash Flows from operating activities	3 765	-8 453	860	-2 020
X	Net Cash Flows from investing activities	-756	329	-173	79
XI	Net Cash Flows from financing activities	-6 309	1 342	-1442	321
XII	Change in cash	-3 300	-6 782	-754	-1 621
XIII	Net profit (loss) and diluted net profit (loss) per share attributable to the shareholders of a Dominant Entity	-0,71	0,24	-0,16	0,06

		31.12.2016	31.12.2015	31.12.2016	31.12.2015
XIV	Total assets	102 114	102 684	23 082	24 096
XV	Long-term liabilities	8 204	7 650	1 854	1 795
XVI	Short-term liabilities	46 794	46 969	10 577	11 022
XVII	Equity	47 116	48 065	10 650	11 279
XVIII	Equity attributable to the shareholders of a Dominant Entity	42 640	47 902	9 638	11 241
XIX	Share capital	732	732	172	172
XX	Weighted average number of shares	7 320 000	7 320 000	7 320 000	7 320 000
XXI	Book value and diluted book value per share attributable to the shareholders of a Dominant Entity	5,83	6,54	1,32	1,54

1.2 Method applied in calculation of financial data

Financial data in EUR were calculated according to the following rules:

- individual items of assets and liabilities – according to exchange rate as at 31.12.2016 - 4,424 PLN/EUR; 31.12.2015 - 4,2615 PLN/EUR; 31.12.2014 - 4,2623 PLN/EUR
- individual items of the statement of comprehensive income and the cash flow statement – according to exchange rate calculated as arithmetic mean of the exchange rates announced by the National Bank of Poland prevailing on the last day of each month:

- for the period of 1 January 2016 – 31 December 2016: 4,3757 PLN/EUR
- for the period of 1 January 2015 – 31 December 2015: 4,1848 PLN/EUR
- for the period of 1 January 2014 – 31 December 2014: 4,1893 PLN/EUR

1.3 Balance sheet

Assets	Note	As at 31.12.2016	As at 31.12.2015
FIXED ASSETS			
Tangible assets	11	4 348	4 225
Intangible assets	12	7 348	6 293
Goodwill on consolidation	13	13 808	8 930
Financial assets available for sale	14	0	0
Long-term receivables	15	7 681	7 760
Deferred income tax assets	9	7 743	8 208
Total		40 928	35 416
CURRENT ASSETS			
Inventories	16	9 964	12 514
Trade receivables and other receivables	17,26	49 667	49 752
Loans granted		476	622
Cash	18	1 079	4 380
Total		61 186	67 268
TOTAL ASSETS		**102 114**	**102 684**

PLN THOUSAND

Liabilities	Note	As at 31.12.2016	As at 31.12.2015
Equity attributable to the shareholders of a Dominant Entity			
Share capital	19	732	732
Share premium	20	37 631	37 631
Revaluation reserve	21	0	0
Other reserves		143	143
Own shares	19	0	0
Retained earnings	22	4 134	9 396
Total		42 640	47 902
Non-controlling interests		4 476	163
Equity – total		47 116	48 065
Long-term liabilities			
Deferred income tax reserve	9	4 528	3 902
Provisions for liabilities	23	434	434
Long-term loans and credits	24	0	0
Other long-term liabilities	24	3 242	3 314
Total		8 204	7 650
Short-term liabilities			
Short-term loans and credits	24	4 291	9 151
Trade liabilities and other liabilities	25,26	41 812	37 229
Provisions for liabilities	23	691	589
Total		46 794	46 969
Other liabilities			
TOTAL LIABILITIES		**102 114**	**102 684**

1.4 Profit and loss account

	Note	Year ended 31.12.2016	Year ended 31.12.2015
Sales revenues	3	121 029	181 664
Costs of products, goods and materials sold	4	-88 904	-141 476
Gross profit (loss) from sales		32 126	40 188
Other operating income	5	1 439	1 183
Costs of sales	4	-23 497	-27 471
General administrative expenses	4	-10 110	-9 755
Other operating expenses	6	-3 200	-1 162
Operating income (loss)		-3 243	2 983
Financial income	7	104	261
Financial costs	8	-1 271	-1 026
Profit (loss) before tax		-4 410	2 218
Income tax:	9	-1 102	-829
Current income tax			-173
Deferred income tax		-1 102	-656
Net profit (loss)		-5 512	1 389
Profit (loss) attributable to:			
Shareholders of a Dominant Entity		-5 220	1 756
Minority Shareholders		-292	-367
Profit (loss) per share attributable to Shareholders of a Dominant Entity			
Ordinary and diluted	10	-0,71	0,24

1.5 Statement of comprehensive income

	Note	Year ended 31.12.2016	Year ended 31.12.2015
Net profit (loss) for the period		-5 512	1 389
Items that may in future be classified as a result:			
Financial assets available for sale	17		329
Deferred tax on other comprehensive income			-63
The total of the components of other comprehensive income			266
Items that will not be classified as a result in future			
Comprehensive income for the period		-5 512	1 655
Comprehensive income for the period attributable to:			
Shareholders of a Dominant Entity		-5 220	2 022
Minority Shareholders		-292,00	-367,00

1.6 Statement of cash flows

	Year ended 31.12.2016	Year ended 31.12.2015
Cash flows from operating activities		
Profit before tax	-4 410	2 218
Adjustments	8 175	-10 671
Depreciation and amortisation	2 800	2 759
Interests received	302	292
Dividends received	0	0
Result on investing activities	-501	313
Change in inventories	3 057	1 526
Change in receivables	-594	-15 967
Change in liabilities and reserves	3 060	738
Change in other assets		
Income tax paid / returned	0	-173
Other	30	-159
Net cash from operating activities	3 765	-8 453
Cash flows from investing activities		
Inflows	1 266	2 804
Disposal of intangible and tangible fixed assets	1 071	218
Repayment of loans	195	950
Disposal of financial assets	0	1 636
Outflows	-2 022	-2 475
Purchases of intangible and fixed tangible assets	-1 962	-1 110
Purchases of financial assets		
Loans granted	-60	-1 365
Other	0	0
Net cash from investing activities	-756	329
Cash flow from financing activities		
Inflows	99	2 549
Credits		2 488
Interests received	16	58
Other	83	3
Outflows	-6 408	-1 207
Purchase of participating interests		160
Dividends and other payments to the owners	-567	-566
Repayment of credits and loans	-4 856	-10
Financial lease payments	-644	-401
Interests paid	-341	-390
Acquisitions of own shares	0	0
Net cash from financing activities	-6 309	1 342
Change in cash	**-3 300**	**-6 782**
Cash at the beginning of the period	4 380	11 162
Cash at the end of the period	**1 080**	**4 380**

1.7 Statement of changes in equity

For the period of 1 January – 31 December 2016

PLN THOUSAND

	Equity attributable to the shareholders of a Dominant Entity						
	Share capital, reserve capital share premium	Retained earnings	Revaluation reserve	Own shares	Total	Equity - Minority Shareholders	Equity - total
As at 1 January 2016	**38 506**	**9 396**	**0**	**0**	**47 902**	**163**	**48 065**
Net Profit/loss for the period	0	-5 220	0		**-5 220**	-292	**-5 512**
Total of comprehensive income	0	-5 220	0	0	**-5 220**	-292	**-5 512**
Dividend in subsidiaries	0	-290			**-290**	-266	**-556**
Consolidation of a subsidiary						5 050	**5 050**
Change of capital - share capital increase in subsidiary		248			**248**	-179	**69**
As at 31 December 2016	**38 506**	**4 134**	**0**	**0**	**42 640**	**4 476**	**47 116**

For the period of 1 January – 31 December 2016

PLN THOUSAND

	Equity attributable to the shareholders of a Dominant Entity						
	Share capital, reserve capital, share premium	Retained earnings	Revaluation reserve	Own shares	Total	Equity – Minority Shareholders	Equity - total
As at 1 January 2015	**38 506**	**9 757**	**-266**	**0**	**47 997**	**-1 022**	**46 975**
Profit/loss for the period	0	1 756	0		1 756	-367	1 389
Financial assets available for sale adjusted by deferred income tax	0		266		266	0	266
Total of comprehensive income	0	1 756	266	0	2 022	-367	1 655
Dividend in subsidiaries	0	-299			-299	-266	-565
Change of capital - share capital increase in subsidiary		-1 818			-1 818	1 818	
As at 31 December 2015	**38 506**	**9 396**	**0**	**0**	**47 902**	**163**	**48 065**

2 ADDITIONAL INFORMATION REGARDING THE ACCEPTED ACCOUNTING PRINCIPLES (POLICY) AND OTHER EXPLANATORY NOTES

3 Key information

Dominant Entity

ARCUS S.A., a Dominant Entity, has been already operating for 30 years (since 2006 as a joint stock company) and according to the Company's Articles of Association, its duration is unlimited. The entity as a Joint Stock Company was established on 6 November 2006 as a result of transformation of a limited liability company operating under the business name of ARCUS Sp. z o.o. ARCUS S.A. was registered by the relevant court on 2 January 2007. The Company's registered office and place of business is at the following address: 5/7 Kolejowa Street, Warsaw. The Company is registered by the District Court for the City of Warsaw, 12th Commercial Division of the National Court Register under the following number: 0000271167. The shares of ARCUS S.A. are admitted to trading on the Warsaw Stock Exchange since 19 June 2008. In August 2008 new B-series shares were issued in the amount of 2 296 681. In 2009 C-series bonus shares were issued. 98 476 C-series shares were subscribed for. In 2014, 75 157 own shares were redeemed while the remaining shares were designated as D-series.

ARCUS S.A. operates under the provisions of the Commercial Companies Codes and is subject to the provisions of the Act of 29 July 2005 on Trading in Financial instruments and the Act of 29 July 2005 on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies.

According to our best knowledge, the shareholding structure of ARCUS S.A. as at balance sheet day was as presented below:

Shareholding structure

	Number of shares = Number of votes	Nominal value of shares held (PLN)	Share in the share capital = share in the total number of votes
MMR Invest S.A.	4 800 000	480 000	65,6%
Other	2 520 000	252 000,00	34,4%
TOTAL	7 320 000	732 000,00	100,0%

(1) Marek Czeredys , Michał Czeredys i Rafał Czeredys are controlling persons in MMR Invest S.A.

The data in the consolidated financial statement have been presented in PLN thousand unless otherwise indicated. Polish zloty (PLN) shall be the functional and reporting currency of the Group.

Core business of ARCUS S.A. Group involves the following areas:

- sale, lease and maintenance of printing and copying devices of Japanese company – Kyocera Document Solutions,
- document and correspondence management systems,
- ICT solutions integration (information and communication technologies)
- solutions for telematics (integrated systems for the management and monitoring of the fleet) and telemetry (smart grid and smart metering).

Management Board

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

- Michał Czeredys – President of the Management Board
- Michał Łotoszyński – Vice-President of the Management Board

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

- Michał Czeredys – President of the Management Board
- Rafał Czeredys – Vice-President of the Management Board

At the meeting held on 26 January 2016, the Supervisory Board appointed Mr. Rafał Czeredys to the Management Board. On 31 August 2016, due to the appointment to the Supervisory Board, Mr. Michał Łotoszyński resigned from the position held in the Management Board.

Supervisory Board

According to ARCUS S.A. Articles of Association, the Company's Supervisory Board shall be composed of 5 to 10 members. As at 1 January 2016, the composition of the Supervisory Board was as follows:

- Marek Czeredys – Chairman of the Supervisory Board,
- Tomasz Konewka – Member 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.

As at 31 December 2016 and as at the day of the financial statement hereof publication, 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 to the Supervisory Board by a resolution of the Extraordinary General Meeting of Shareholders held on 31 August 2016.

ARCUS Group

ARCUS S.A. Group (hereinafter " the Group" or "ARCUS Group") consists of the following entities:

– ARCUS S.A. as a Dominant Entity
– Subsidiary: T-matic Systems S.A. and its subsidiary established in December 2016 - Geotik Sp. z o.o.
– Subsidiary: Docusoft Sp. z o.o.
– Subsidiary: Durau Sp. z o.o. and its subsidiary established in 2016 LMT Sp. z o.o.
– Subsidiary: Arcus Systemy Informatyczne Sp. z o.o.
– Subsidiary: Arcus Kazachstan – non-operational entity

ARCUS S.A. Group was established on 29 July 2008 as a result of acquisition of 55% of T-matic Systems Sp.

z o.o. (with its registered office in Warsaw) entitling to 55% votes at the mentioned company's General Meeting of Partners. ARCUS S.A. acquired 550 shares for the amount of PLN 3,541 thousand.

The acquisition of shares was accounted for using the purchase method. In September 2011, shareholders of T-matic adopted a resolution regarding the increase of share capital by the amount of PLN 667 thousand up to the amount of PLN 717 thousand through the issue of 13 340 new shares. ARCUS S.A. acquired 7 337 newly issued shares for the total amount of PLN 367 thousand. In January, a minority shareholder, T-matic Systems Ltd., sold its 45% stake in T-matic Systems S.A. to Mr. Marek Czeredys, majority shareholder in Arcus S.A., controlling Arcus S.A. through a subsidiary - MMR Invest. On 5 April 2013, at the Extraordinary General Meeting of Shareholders of T-matic Systems S.A. a resolution was adopted on the issue of 220 thousand B-series registered shares without pre-emptive rights, addressed to the majority shareholder, i.e. to Arcus S.A. On 8-9 April 2013, the Management Board of T-matic Systems S.A. held a subscription of the shares. The shares were fully subscribed for. Thus, Arcus S.A. acquired 220 thousand new B-series shares for a total price of PLN 1,980 thousand and increased its share in votes in T-matic Systems S.A. to 61%.

In accordance with the Articles of Association of T-matic Systems S.A., the scope of company's main business operations includes:

- Manufacture of instruments and appliances for measuring, testing and navigation,
- Installation of industrial machinery and equipment,
- Service activities incidental to land transportation,
- Wireless telecommunications activities,
- Computer facilities management activities,
- Wholesale trade, excluding motor vehicles.

In April 2015, T-matic issued (to Arcus S.A.) 340 thousand C-series shares with a face value of PLN 1. Arcus S.A. acquired all shares for the total price of PLN 3.06 million, reaching the level of 67.6% of the votes at the General Meeting of this company. On 29 December 2016, under a bilateral agreement, GEOTIK Sp. z o.o. was established within Arcus S.A. Group. The transaction was executed through a contribution in kind of an organised part of the T-matic Systems S.A. enterprise associated with the business operations on the telematics market, and through a contribution in the form of the enterprise under the name Rikaline Monika Majewska with its registered office in Wrocław. The structure of GEOTIK Sp. z o.o. share capital shall be as follows:

1. T-matic Systems S.A. acquired 28 014 shares with a total nominal value of PLN 1,400,700.00, representing 65.67% of the Company's share capital and votes at the General Meeting of Shareholders;

2. Monika Majewska acquired 14 645 shares with a total nominal value of PLN 732,250 representing 34.33% of the Company's share capital and votes at the General Meeting of Shareholders.

In accordance with an investment agreement concluded on 29 December 2016, it is expected that T-matic Systems S.A. will increase its share capital in 2017, as a result of which the shareholding of GEOTIK Sp. z o.o. will amount to 66.7%. The Company's registered office is located at: Kolejowa 5/7 St., 01-217 Warszawa. The newly formed company, thanks to synergies between merging entities, would effectively increase its share in the car fleet management market. The Management Board of GEOTIK Sp. z o.o. anticipates a significant increase in revenue over the next 4 years.

GEOTIK Sp. z o.o. will offer a new high-tech product dedicated to large enterprises and institutions and will combine the existing experience of both companies in terms of marketing, implementation and sales of BRUMGO product addressed to smaller entities. T-matic Systems S.A. will continue to offer smart grid and smart metering solutions dedicated primarily to the energy sector and solutions that support automatic traffic measurement.

In November 2013, by a notarial deed, T-matic Systems S.A. established a subsidiary – Durau Sp. z o.o. with initial capital amounting to PLN 20 thousand. In January 2014 the capital was increased to PLN 100 thousand. In July 2014, the shares were transferred to Arcus S.A., and in August 2014 the share capital was increased by the amount of PLN 200 thousand. Subsequent share capital increase was performed in December 2016. Arcus S.A. subscribed for new shares of a total value amounting to PLN 70 thousand. Durau Sp. z o.o., in cooperation with its subsidiary – LMT, are engaged in building a nationwide purchasing group operating in the energy and fuel sectors and offering services to SMEs. Durau Sp. z o.o. with its registered office in Wrocław, at 40 Robotnicza St., was registered with the District Court for the City of Wrocław, Commercial Division of the National Court Register, under the following number: KRS 0000490845. In May 2011, Arcus S.A. assumed the control of Docusoft Sp. z o.o. acquiring new shares for the total amount of PLN 2 010 thousand. As at balance sheet day Arcus S.A. holds 86.96% of Docusoft Sp. z o.o. share capital. Docusoft Sp. z o.o. was incorporated on the basis of a notarial act of 5 July 1999 (A Repertory 9904/99) and registered with the District Court for the City of Bielsko-Biała, 7th Commercial Division of the National Court Register, under the following number: KRS 0000204275. The Company's scope of business operations includes:

- Computer programming activities
- Engineering activities and related technical consultancy
- Architectural and engineering activities and related technical consultancy
- Computer consultancy activities
- Other information technology and computer service activities
- Other software publishing

On 25 April 2014, ARCUS S.A. concluded an Investment Agreement as a result of which undertook to acquire for the total amount of PLN 7.66 million a controlling share in Syntea Business Solutions. In accordance with the terms of mentioned Agreement, on 27 June 2014 ARCUS S.A. acquired newly issued shares of Syntea Business Solutions of issue value amounting to PLN 5.1 million in exchange for an in-kind contribution in the form of an organized part of an enterprise and currently holds 36.9% share in the capital and in the total number of votes at the GM of this company. Furthermore, on 1 July 2014 conditional agreements regarding the acquisition of the shares of new issue in exchange for cash in the amount of PLN 528 thousand and the repurchase of shares from existing shareholders, were finalized. Due to the above, as f 1 July 2014, ARCUS S.A. is a controlling shareholder in ASI (53% share in capital and votes). ASI company (formerly Syntea Business Solutions) is registered with the District Court for the City of Lublin with its seat in Świdnik, 7th Commercial Division of the National Court Register, under the following number: KRS 000003180. The company has been operating on the IT market since 1996 and provides consulting, implementation and maintenance services in terms of Enterprise Resource Planning (ERP) to public entities. The company offers one4all solutions that integrate the business areas of an organization's core business processes, communication and workflow management, project management and business analysis, and specializes in the delivery and implementation of Unified Communications systems and IT infrastructure.

Arcus Kazachstan Sp. z o.o. was established on 8 September 2014 under the laws of the Republic of Kazakhstan by a specialized entity (law firm). On 8 October 2014, Arcus S.A. repurchased 100% of shares in this company of value amounting to KZT 200. The Company did not have any impact on the Group's result due to the lack of significant operations.

Statements of the Management Board

Statement on the reliability of the consolidated financial statement

On the basis of the of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of non-member state (as amended), the Management Board of ARCUS S.A. hereby declares that to the best of its knowledge the consolidated annual financial statement hereof as well as comparative data have been prepared in accordance with applicable accounting rules and present fairly and clearly the economic and financial situation of ARCUS S.A. Group and its financial result, and that the annual Management Board's report on ARCUS S.A. Group's activities comprises a comprehensive view of development and achievements of ARCUS Group, including description of fundamental risks.

Statement regarding the entity authorised to audit the financial statements

According to the Articles of Association of the Company, (as allowed under Art. 146.1 of the Commercial Companies Code), the auditor is selected by the Supervisory Board, which annually selects a statutory auditor in accordance with the applicable regulations and professional standards, observing the principle that the change should be made at least every 5 years. The change of the statutory auditor is understood primarily as a change of a key person signing the opinion and the report.

The Management Board of ARCUS S.A. hereby declares that TPA Sp. z o.o. sp. k. (formerly: TPA Horwath Horodko Audit Sp. z o.o.) is authorized to audit the consolidated financial statement and has been selected in accordance with the law. TPA Sp. z o.o. sp. k. (formerly: TPA Horwath Horodko Audit Sp. z o.o.) and its statutory auditors have fulfilled the conditions for issuing an impartial and independent audit opinion in accordance with applicable regulations and professional standards. The statutory auditor was selected by the resolution of the Supervisory Board of 20 July 2016, to examine and review the separate and consolidated financial statements of ARCUS S.A.

Warsaw, 28 April 2017

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Michał Czeredys	Rafał Czeredys
President of the Management Board	Member of the Management Board

4 ACCOUNTING PRINCIPLES

4.1 Basis for preparing financial information

Presented consolidated financial statement has been prepared for the year ended on 31 December 2016. The comparative data cover the year ended on 31 December 2015. The Group's financial year is the calendar year. The Group has no discontinued operations. In the reporting period, there were no changes in the applied accounting principles. The financial statement has been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As at the date of financial statement preparation, there are no circumstances indicating a threat to the continuation of Group's business operations.

4.2 Statement of compliance

Presented consolidated financial statement covering the period from 1 January 2016 to 31 December 2016 and comparative data for the period from 1 January 2015 to 31 December 2015 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union and includes the information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities.

4.3 New accounting principles and interpretations of the International Financial Reporting Standards Interpretations Committee

The accounting policies and calculation methods adopted for the preparation of this consolidated financial statement are consistent with the principles set out in the approved financial statement of Arcus S.A. Group prepared in accordance with IFRS for the year ended 31 December 2015. In the reporting period, a presentation adjustment in the profit and loss account was made in terms of the recognition of a part of consumables (associated with the services provided), which in the previous periods accounted for the cost of sales and are currently recognized as cost of sales. In the case of introduction of the above presentation adjustment in the comparable period, the sales costs for 2015 would have decreased by PLN 2 410 thousand, while the cost of sales for 2015 would increase by PLN 2 410 thousand.

Standards and interpretations issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, which have been published but not enacted:

- IFRS 9 "Financial Instruments" published on 24 July 2014 and effective for annual periods beginning on 1 January 2018;
- IFRS 15 "Revenue from Contracts with Customers" published on 28 May 2014, effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 16 on leasing accounting - a standard not yet adopted by the European Commission; The date of the planned approval has not been determined;
- IFRS 14 "Regulatory Deferral Accounts" was published on 30 January 2014; until the date of publication of this financial statement, not approved by the EU; effective for annual periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - sale or transfers of assets between the investor and the associate or joint venture (the date of entry into force has been postponed indefinitely);
- Amendments to IAS 12 "Recognition of deferred income assets for unrealized losses" - effective for annual periods beginning on or after 1 January 2017; until the date of publication of this financial statement, not approved by the EU;
- Amendments to IAS 7 "Disclosure Initiative" - the requirement to disclose reconciliations of changes in liabilities arising from finance activities; division into changes that are cash flow and non-cash; effective for annual periods beginning on or after 1 January 2017; until the date of publication of this financial statement, not approved by the EU.

The Group has not decided for the early application of any standard, interpretation or amendment that has been issued but is not yet effective. In the opinion of the Management Boards of Group's companies, above mentioned standards and interpretations will not result in a material impact on the accounting policy applied by the Group.

4.4 Accounting judgments and estimates

Some of the information presented in this financial statement is based on estimates and professional judgment. Therefore, the expected cash flows depend on the performance of future events, which are not always certain and under control of the Group's Management Board.

Contracts for the supply of goods and maintenance of equipment and devices

Some contracts for the supply of goods and maintenance of equipment and devices are recognized jointly. Total margin on the basis of estimates is allocated to the part relating to the sale of equipment and to the part relating to the sale of services, which is settled within the duration of the contract. The value of the margin to be settled in future periods is presented in the balance sheet assets as accruals under the item "Trade receivables and other receivables".

Depreciation rates

Depreciation rates are determined based on the estimated economic useful life of tangible fixed assets and intangible assets. The Group's companies review, on an annual basis, the economic useful life periods based on current estimates.

Impairments losses on tangible assets

The Group's companies review the assets for potential impairment at least once a year. At the same time, if there are indication of impairment during the financial year, a test and revaluation write-offs are made at the time of their occurrence. The estimates of impairment on goodwill are based on the five-year financial forecasts adopted by the Management Board of Arcus S.A. Information about the performed tests is presented in Note 2.5.3.

Impairment losses on inventories

Inventories are measured at purchase price or manufacturing cost, not higher than net realizable value. Depending on the assessment of the suitability of inventories and market conditions in terms of their sale, the value of these assets for the Group's companies may change.

Provisions for impairment of receivables

The Group's companies recognize provisions for impairment of overdue receivables or doubtful receivables, including claims for compensation for unreasonable performance of the guarantee. Depending on the assessment of the collectability of these receivables, the value of these assets may change.

Provisions for liabilities

The Group's companies recognize provisions for certain or highly probable liabilities that can be reliably estimated. In connection with the claim of Energa Operator S.A. described in paragraph 27, the Management Board of ARCUS S.A. – on the basis of collected documentation and the opinion of external legal firm – believes that mentioned claim is unfounded, and the potential cash outflow in connection with this claim is unlikely. Considering the above, the Company has not recognized any provisions relating to described dispute as at the balance sheet date.

Deferred income tax assets

The Group's companies recognize the deferred income tax assets. The estimates regarding calculation of deferred tax relates mainly to the recognition of deferred tax assets arising from accumulated tax losses, established provisions and lease receivables and liabilities. Estimates of the feasibility of tax losses are based on five-year forecasts approved by the Group's Management Board.

Non-invoiced revenue

The Group recognizes revenues from long-term contracts in accordance with the adopted accounting policy. Depending on the assessment of the probability of revenue, a possible write-off is recognized.

5 Outline of key accounting principles

5.1 Basis of consolidation

The consolidated financial statement contains the financial statement of a Dominant Entity and the statements of entities controlled by the Dominant Entity prepared as at 31.12.2016 and 31.12.2015. ARCUS S.A. assumed a control of its subsidiaries – T-matic Systems Sp. z o.o. and Docusoft Sp. z o.o. respectively on 29 July 2008 and 24 May 2011. In July 2014, as a result of acquisition of shares, ARCUS S.A. assumed the control of Arcus Systemy Informatyczne Sp. z o.o. (formelry Syntea Buisiness Solutions). In October 2014, ARCUS S.A. acquired the shares in Arcus Kazachstan Sp. z o.o., which as at the date of the financial statement hereof preparation, does not perform business operations. In the reporting period, T-matic Systems S.A. as a subsidiary of ARCUS S.A. assumed the control of a newly established entity – Geotik Sp. z o.o.

The control is when the dominant entity has the ability to influence the financial and operating policies of an entity so as to obtain benefits from its business operations. At the acquisition date, the assets and liabilities of the acquired entity are measured at their fair value. The excess of the acquisition price over the fair value of the entity's identifiable net assets is recognized as goodwill. Where the acquisition price is lower than the fair value of the identifiable entity's net assets, the difference is recognized as profit in the profit and loss account of the period in which the acquisition occurred. Non-controlling interests are disclosed in an appropriate proportion of the fair value of assets and capital. In subsequent periods, losses attributable to non-controlling interests exceeding the value of their shares, decrease the Group's capital. The financial performance of an entity acquired during the year is recognized in the consolidated financial statement as from the date of acquisition / loss of control. Subsidiaries are consolidated using the full method. All transactions, balances, revenues and costs between related entities covered by consolidation are subject to consolidation exclusions.

5.2 Goodwill

Goodwill on consolidation is a result of a surplus (as at the acquisition date) of the cost of entity's acquisition over the fair value of the identifiable assets and liabilities of a subsidiary. Goodwill is recognized as an asset and is subject to annual impairment tests. Potential impairment loss affects the result of the current period and is not subject to reversal in subsequent periods. For the purposes of the sale of a subsidiary, goodwill is taken into account in order to calculate profit or loss on sales. Depending on the assessment of the prospects of the subsidiaries, the value of these assets for the group may change. In the opinion of the Management Board of a Dominant Entity, as at 31 December 2016, there were no conditions indicating the need to execute the revaluation of goodwill of subsidiaries, that is: Docusoft Sp. z o.o., T-matic Systems SA, Arcus Systemy Informatyczne Sp. z o.o. and Geotik Sp. z o.o.

5.3 Intangible assets

Intangible assets include assets that do not have a physical character, are identifiable, can be measured reliably and in the future will result in economic benefits for the Group. Intangible assets are recognized in the books at purchase prices and are amortized on a straight-line basis over their economic useful lives.

The Group depreciates its intangible assets in the following periods:

- purchased software – 5 years,
- licenses and similar assets – 5 years.

In the case of software developed or acquired, which is only intended for use in a specific project, the period of redemption is equal to the duration of the project. In the case of licenses and similar values (e.g. certificates) their value is determined on the basis of the costs of obtaining them, and in the case of a specified license term or the term of a similar value, the redemption period is equal to that period. Expenditures on intangible assets which do not result in their improvement or extension of their useful life are charged to expenses as they are incurred. During the reporting period, the Group incurred the expenditures for development works.

As at the balance sheet date, intangible assets are measured at cost less any revaluation write-offs and any impairment losses. ARCUS Group does not hold any intangible assets with indefinite useful life apart from goodwill. Depreciation methods and useful lives of intangible assets are subject to verification at each balance sheet date. ARCUS Group does not hold any intangible assets classified as "held for sale". In the reporting period the Group has not recognized any impairment losses on intangible assets.

5.4 Fixed tangible assets

Tangible fixed assets include fixed assets and fixed assets under construction, which the Group intends to use in its operations and for administrative purposes for a period longer than one year, which in the future will cause economic benefits to the entities. The initial value of tangible fixed assets is determined according to purchase price or production cost. Fixed tangible assets are depreciated on the basis of straight-line method over their economic useful life. In the balance sheet, fixed tangible assets are presented less depreciation or amortization charges and impairment losses. The Group's assets are depreciated over the following periods:

Group 1	Buildings	10 years
Group 4	Machines and equipment	6 to 10 years
	Excluding: computer hardware	3 years
Group 6	Technical devices	5 years
Group 7	Means of transport	5 years
Group 8	Tools, devices, movables and equipment	5 to 7 years

Costs incurred for the renovation, which do not result in the improvement or extension of the useful life of fixed asset are recognized as expense as they are incurred. ARCUS Group does not hold any intangible assets with indefinite useful life. Depreciation methods and useful lives of fixed tangible assets are subject to verification at each balance sheet date. ARCUS Group does not hold any fixed tangible assets classified as "held for sale". In the reporting period the Group has not recognized any impairment losses on fixed tangible assets. In the reporting period no restrictions were recognized as to the legal title to fixed tangible assets.

5.5 Financial assets

Financial instruments are classified in the following categories:

- held-to-maturity financial assets
- financial assets at fair value through profit and loss
- loans granted and receivables
- available-for sale-financial assets.

Held-to-maturity financial assets are the assets other than derivatives with fixed or determinable payments and fixed maturities, which the Group intends and has the ability to hold to maturity. Held-to-maturity financial assets are measured at amortized cost using the effective interest rate method. Financial assets measured at fair value through profit or loss are the assets acquired for resale and with the aim to achieve economic benefits resulting from short-term price changes and fluctuations of other market factors or short duration of the acquired instrument, as well as other financial assets, regardless of the intentions assumed while concluding the contract, if they represent a component of a portfolio of similar financial assets for which there is a high probability of economic benefits in a short-term. Arcus Group does not hold such financial assets. The fair value is considered the price that would be received by the entity for the sale of an asset or would be paid by the entity for the transferred liabilities in a routine transaction made between market participants at the measurement date. Financial assets at fair value through profit or loss are measured at fair value taking into account their market value at the balance sheet date, excluding transaction costs. Changes in the value of these financial instruments are recognized in the profit and loss account as financial income or expenses. ARCUS Group has no financial assets at fair value through profit or loss. Loans granted and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Granted loans and receivables are classified as current assets if their maturity does not exceed 12 months from the balance sheet date. Available-for-sale financial assets are non-derivative financial assets that do not belong to any of the three preceding categories. Available-for-sale financial assets are recognized at fair value, excluding recognition of the purchase cost, but with consideration of market value at the balance sheet date. Where the financial assets are not listed on the Warsaw Stock Exchange and it is not possible to determine their value in a different way, available-for-sale financial assets are measured at cost adjusted for impairment loss. Decrease in value of available-for-sale financial assets resulting from impairment loss is recognized as a financial cost, while the increase is recognized in the revaluation reserve. As at 31 December 2016, the verification and fair-value tests were performed with regard to shares held by ARCUS S.A. in subsidiaries: Arcus Systemy Informatyczne Sp. z o.o., Docusoft Sp. z o. o., T-matic Systems S.A., Durau Sp. z o.o. and Geotik Sp. z o.o.

Methodology for determination of recoverable amount

	Description of applied measurement methodology
Arcus Systemy Informatyczne Sp. z o.o.	Discounted cash-flow method (DCF) on the basis of FCFF (Free Cash Flow to Firm)
T-matic Systems SA	Discounted cash-flow method (DCF) on the basis of FCFF (Free Cash Flow to Firm)
Docusoft Sp. z o. o.	Discounted cash-flow method (DCF) on the basis of FCFF (Free Cash Flow to Firm)
Durau Sp. z o.o.	Discounted cash-flow method (DCF) on the basis of FCFF (Free Cash Flow to Firm)

In assessing the value of financial assets corresponding to the values in the companies the going concern principle and the principle of growth markets were used. According to these assumptions, verifications of business models of particular entities were conducted with particular emphasis on their ability to generate revenues on core business, margins, financial results and cash flows. The valuation of the participating interests in particular entities was based on the following assumptions:

1. The valuation methodology is analogous to the methodology used in the preceding valuation, i.e. as at 31 December 2015, which was included in the reports for 2015.
2. The updates, compared to the previous valuation, include:
    a. update of operational and financial projections for the next 3 years, i.e. for the period 2017-2019
    b. update of parameters used for calculation of the weighted average cost of capital (WACC) and responsible for the increase of uncertainty in the implementation of key contracts (risk premiums) and increase of cost of capital based on the current terms for 10-year Treasury bonds.
3. Analysis of financial statements of companies for the years 2014-2016 and analytical compilation of data on individual balance sheet items.
4. Analysis of the implementation of the annual financial plans of companies for the year 2016.
5. Annual financial projections of companies for the year 2017.
6. The strategies of companies for the years 2016-2022.
7. Macroeconomic assumptions and projections for individual market segments.
8. For companies operating in multiple segments, a separate valuation based on economic performance and assets and liabilities assigned to the respective segments is made. The identified flows have been evaluated for the telematics segment within - Geotik as a separate entity, as well for Arcus Systemy Informatyczne in terms of ERP and integration segment. Other companies do not distinguish separate segments.
9. For individual valuations of participating interests, the sensitivity analysis is performed in respect of the significant factors affecting the business activity, including:
    a. weighted average cost of capital

   b. growth rates for residual value calculation.

10. In terms of volatility of exchange rates of EUR/PLN, USD/PLN and CPI inflation, an assessment was made as to the impact on the estimated value of companies. In the event a significant impact was identified, the potential value adjustments were determined.
11. Verification of the value of participating interests in companies is carried out with consideration of weighted average cost of capital plus additional premiums covering market risk premiums and specific risk premiums.

According to the tests carried out as at 31 December 2016, there were no premises for revaluation of the participating interests in Arcus Systemy Informatyczne Sp. z o.o., Docusoft Sp. z o. o., T-matic Systems S.A., Durau Sp. z o.o. The estimates have shown that future cash flows will be at least equal to the value as at the balance sheet date. The test was performed both for participating interests in individual companies as well as for the separated segments of their business. In addition, an analysis of the sensitivity of valuation of particular companies and value of participating interest and shares is performed. However, it must be borne in mind that, depending on the assessment of the prospects of particular companies and respective segments, the value of these assets for Arcus S.A., may change.

Sensitivity analysis

Sensitivity analysis did not disclose the significant risk of decreasing the valuation of individual companies or selected segments except for the valuation of T-Matic shares. In the case of estimating the value of T-matic Systems, the considerable importance of projections for the years 2017-2019 shall be taken into account. The planned increase in sales revenues compared to previous periods, particularly related to the telemetry segment, is an additional uncertainty factor in respect of estimates. Projections of the energy market in Poland and the EU requirements for the implementation of smart meters are the basis for recognizing TMS projections as feasible. For the purposes of T-matics valuation, the projections were based on contracts for which there is a very high probability of performance. Contracts for smart meters with lower probability of execution were not included in projections used for valuation purposes. The assumed share of TMS in the market / contracts is <15%, which should be considered a very conservative assumption. Because of a risk of non-execution / organization of tenders for implementation of solutions in the area of smart meters with regard to the valuation of T-Matics, as well as potential problems with financing IT contracts with EU funds in relation to the valuation of Arcus Systemy Informatyczne and uncertainty as to the development of Intermediary Sale of Energy market - in relation to Durau valuation, for valuation purposes, the market risk premium and the specific risk premium were increased.

Sensitivity analysis for T-matics:

WACC change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Valuation (PLN thousand)	9 138,5	10 675,6	11 558,0	12 532,3	13 613,8	14 821,5	17 715,5
change %	-27,1%	-14,8%	-7,8%		8,6%	18,3%	41,4%
change (PLN thousand)	-3 393,8	-1 856,7	-974,3		1 081,5	2 289,2	5 183,2

Change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Value	4,0%	3,0%	2,5%	2,0%	1,5%	1,0%	0,0%
Valuation (PLN thousand)	15 378,4	13 790,5	13 126,9	12 532,3	11 996,3	11 510,8	10 664,9
change %	22,7%	10,0%	4,7%		-4,3%	-8,2%	-14,9%
change (PLN thousand)	2 846,1	1 258,2	594,6	0,0	-536,0	-1 021,5	-1 867,3

For the purposes of estimating the value of the company, the following discount rates are applied for the years 2017-2019:

	2018	2019	2020
Discount rate	1,28	1,46	1,65

Value of WACC indicator for the years 2017-2020

	2017	2018	2019	2020
WACC	13,2%	13,4%	13,5%	13,6%

DCF Valuation (PLN)

Current value of FCFF (1)	13 024,1
Residual value(2)	26 405,6
Current residual value	10 859,9
Value of participating interests in Geotik (3)	9 660,0
Gross enterprise value (4)	33 544,1
Net debt (5)	21 011,8
Absolute value	12 532,3

(1)Free Cash Flow to Firm

(2)according to Gordon model

(3) Geotik Telematics contributed to Geotik

(4)Enterprise Value

(5) liabilities less cash, as at 31 December 2016

According to the above valuation, the estimated value of 100% of the capital of T-matics as at 31 December 2016 amounts to PLN 12.5 million. The participating interests in T-matics held by Arcus S.A. and equaling to 75% correspond to an amount of PLN 9.4 million (goodwill of T-matics presented in the assets in Arcus S.A. consolidated financial statement amounts to PLN 3.03 million).

Sensitivity analysis for Arcus Systemy Informatyczne:

WACC change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Valuation (PLN thousand)	14 730,4	16 288,0	17 190,3	18 192,3	19 310,5	20 565,2	23 591,9
change %	-19,0%	-10,5%	-5,5%		6,1%	13,0%	29,7%
change (PLN thousand)	3 461,8	1 904,3	1 002,0	0,0	-1 118,2	-2 372,9	-5 399,6

Change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Value	4,0%	3,0%	2,5%		1,5%	1,0%	0,0%
Valuation (PLN thousand)	26 606,8	21 317,5	19 576,9	18 192,3	17 064,6	16 128,5	14 663,9
change %	46,3%	17,2%	7,6%		-6,2%	-11,3%	-19,4%
change (PLN thousand)	8 414,6	3 125,3	1 384,6	0,0	-1 127,6	-2 063,8	-3 528,4

Sensitivity analysis for Docusoft:

WACC change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Valuation (PLN thousand)	2 677,5	3 090,2	3 329,4	3 595,1	3 891,8	4 225,0	5 029,8
change %	-25,5%	-14,0%	-7,4%		8,3%	17,5%	39,9%
change (PLN thousand)	-917,7	-504,9	-265,7		296,7	629,8	1 434,7

Change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Value	4,0%	3,0%	2,5%		1,5%	1,0%	0,0%
Valuation (PLN thousand)	5 836,4	4 422,1	3 960,7	3 595,1	3 298,3	3 052,6	2 669,2
change %	62,3%	23,0%	10,2%		-8,3%	-15,1%	-25,8%
change (PLN thousand)	2 241,2	826,9	365,6	0,0	-296,8	-542,5	-925,9

Sensitivity analysis for Durau:

WACC change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Valuation (PLN thousand)	225,5	402,7	505,6	620,1	748,1	892,1	1 240,9
change %	-63,6%	-35,1%	-18,5%		20,7%	43,9%	100,1%
change (PLN thousand)	-394,5	-217,4	-114,5		128,1	272,1	620,8

Change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Value	4,0%	3,0%	2,5%		1,5%	1,0%	0,0%
Valuation (PLN thousand)	1 605,6	983,7	780,8	620,1	489,6	381,5	212,9
change %	158,9%	58,6%	25,9%		-21,0%	-38,5%	-65,7%
change (PLN thousand)	985,5	363,6	160,7	0,0	-130,5	-238,6	-407,1

5.6 Inventory

Inventories are the assets held for sale in the ordinary course of business, and being in the process of production for sale in the form of materials or raw materials used in the production process or in the rendering of services. Inventories include materials and goods. Materials and goods are initially measured at a purchase price. As at the balance sheet date, materials and goods are measured subject to prudence principle, i.e. - these categories are valued at a purchase price or at a realizable price, depending on which one is lower. Inventories of goods and materials are subject to impairments. Inventory disposal is carried out according to the FIFO method and is recognized in cost of sales. Impairment losses on inventory resulting from prudent valuation and impairments on items remaining in stock, as well as their reversals are recognized in cost of sales.

5.7 Trade receivables and other receivables

Receivables are recognized initially at fair value. In the case of normal payment periods that are accepted in the market and in practice for similar transactions, fair value is deemed to be their face value arising on recognition of revenue. At the balance sheet date, trade receivables are measured according to the prudence principle. Impairment loss on receivables is recognized based on the degree of probability of their repayment. Items are analyzed individually in order to determine the necessity to recognize impairment loss. Impairment losses on receivables are classified as other operating expenses. Receivables denominated in foreign currencies are recognized and measured on the balance sheet date in accordance with the principles described in paragraph: "Transactions in foreign currencies". The costs and revenues to be settled over time are also recognized in trade receivables and other receivables.

5.8 Impairment losses on assets

At each balance sheet date, the Group's companies review the carrying value of assets to determine whether there are indications of possible impairment loss. In the event that any such indication exists, the recoverable value of the asset is estimated in order to determine the potential impairment loss.

Where the asset does not generate cash flows that are largely independent of cash flows generated by other assets, the analysis is performed for a group of assets generating cash flows to which the given asset belongs. The recoverable amount is the higher of the two values, namely: the fair value less costs of sales or value in use, which corresponds to the value of estimated future cash flows discounted using a discount rate that reflects current market time value of money and the specific risks, if such exists for a given asset.

If the recoverable amount is lower than the net book value of the asset or group of assets, the book value is reduced to recoverable amount. The loss resulting from this fact is recognized as an expense in the period in which the impairment loss occurred. In the case of impairment loss reversal, the net value of the asset is increased to the new estimated recoverable value, but not higher than the net value of the asset that would be determined if the impairment loss would have not been recognized in previous periods.

Reversal of impairment loss is recognized as an adjustment to the costs of the period in which the indications of impairment ceased. The recognized impairment loss on goodwill is not subject to reversal.

5.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash in bank accounts, including bank deposits. Cash equivalents include short-term investments of high liquidity that are readily convertible to certain amounts and subject to insignificant risk of changes in value, including accrued interest on bank deposits. Cash and cash equivalents are measured at nominal value. Cash and cash equivalents denominated in foreign currencies are recognized and measured on the balance sheet date in accordance with the principles described in paragraph: "Transactions in foreign currencies". For the purposes of the cash flow statement, cash and cash equivalents are defined in the same manner as for the purposes of recognition in the balance sheet. Cash is measured at nominal value, while bank deposits are valued at the amount due.

5.10 Equity

5.10.1 Share capital

The share capital of a Dominant Entity consists of 7.320.000 D-series shares with a nominal value amounting to PLN 0.10. Share capital is recognized at nominal value.

5.10.2 Statutory capital reserve resulting from the share premium

In the second half of 2007, ARCUS – a Dominant Entity, issued B-series shares. The issue price per share was PLN 17. As a result of the issue, 2 296 681 shares were subscribed for. The statutory capital reserve resulting from share premium amounted to PLN 37,630,700.57.

5.10.3 Retained earnings

Retained earnings include earnings retained in Group's companies on the basis of the shareholders' decision as well as the Group's result for the period (or potential results of previous years' errors) attributable to the shareholders of a Dominant Entity.

5.11 Credits and loans

Credits and loans are recognized with interests due. Exceptions are overdrafts for which no repayment schedule is set. For this type of loan, the costs associated with its disbursement and other fees shall be charged to financial expenses in the period they are incurred. In other cases, financial expenses, including commissions paid at the time of repayment or redemption and direct borrowing costs, are recognized in the profit and loss account using the amortized cost and increase the book value of the instrument with consideration of the repayments made in the current period.

5.12 Trade and other liabilities

Liabilities are obligations arising from past events, and characterized by reliably determined value, and which will result in the use of already held or future assets of the Company. Liabilities are recognized initially at fair value. When using normal payment dates, which are used on the market in similar transactions, their fair value is deemed to be their face value arising on recognition of liability. At the balance sheet date, the liability is measured at amortized cost, or if the difference is not significant - at nominal value, with consideration of the principles described above. Other liabilities are classified as liabilities payable for goods or services that have been received or made but not paid, invoiced or formally agreed with the supplier. Liabilities denominated in foreign currencies are recognized in the books and measured at the balance sheet date in accordance with the rules described in "Foreign currency transactions" section.

5.13 Reserves and provisions

Reserves and provisions are created when Group's companies have an existing legal or constructive obligation resulting from past events and it is probable that fulfillment of this obligation will result in the outflow of resources embodying economic benefits and a reliable estimate of the amount of the obligation can be made but the final amount or the maturity of this obligation are uncertain. Where the impact of the time value of money is material, the amount of the provision is determined by discounting the projected future cash flows to the present value, using a discount rate reflecting current market assessments of the value of money and risks associated with the obligation. Increases in reserves, based on the discount rate method, are recognized as borrowing costs over time. If the Group expects that the costs covered by the provision will be recovered in any way, such reimbursement is recognized as a separate asset but only when it is certain that the cost will be recovered. Provisions for warranty costs are recognized upon the sale of products in accordance with the Management's best estimate of future costs to be incurred by the Group during the warranty period without the possibility of transferring them to the manufacturer. The warranty period granted by the Group’s companies for their products does not exceed 12 months. The value of the provisions is estimated at each balance sheet date based on historical data on the costs of warranty repairs. Provisions for specific risks are created when there is a probable outflow of economic benefits from the entity, and the estimate can be reliably carried out. As far as employee benefits are concerned, Group’s companies are not parties to any wage agreements or collective agreements. Group’s companies also do not have pension schemes directly managed by companies or by external funds. The costs of employee benefits include remuneration paid in accordance with the terms and conditions of employment contracts with individual employees. Liabilities arising from short-term employee benefits are measured on a general basis. Short-term and long-term liabilities due to retirement, disability and post-mortem benefits are estimated on the basis of actuarial methods. Actuarial gains and losses were not presented in the report, due to their immateriality.

5.14 Transactions in foreign currencies

Business operations denominated in foreign currencies are recognized in the accounting books at the date of their execution respectively at the exchange rate:

- buy or sale exchange rates used by the bank whose services are used by the Company - in the case of buy or sale of currencies and payment of amounts due operations,
- the average rate for a given currency determined by the National Bank of Polish on the day preceding the date of the transaction.

Assets and liabilities denominated in foreign currencies are measured at the balance sheet date according to the average exchange rate published as at the balance sheet date by the National Bank of Poland for a given currency. Foreign exchange differences arising on the settlement of transactions denominated in foreign currencies, as well as resulting from the balance sheet valuation of assets and liabilities denominated in foreign currencies and associated with the core business (operations) of the Group, are recognized respectively in financial costs or revenues.

5.15 Leasing

Lease is classified as finance lease if the agreements transfer substantially all the risks and benefits resulting from the use of the leased asset to the lessee. Other leases are considered to be operating leases. Assets held under finance leases are recognized as assets of the Company and are measured at their acquisition at the present value of lease payments. The liability to the lessor is recognized in the balance sheet in other liabilities. Lease payments are divided into interest and equity parts. The interest part of the lease installment is recognized as the financial cost. Assets transferred under financial lease are derecognized from fixed assets of the Group. The receivables from the lessee arising on this account are presented in the balance sheet under trade receivables and long-term receivables. The lease payments received are divided into interest and equity. The interest part of a lease installment is the income recognized in the group of income from sales of goods and materials.

5.16 Statement of comprehensive income

The statement of comprehensive income covers the profit and loss account and other comprehensive income.

5.17 Profit and loss account

For the primary reporting of costs in the profit and loss account, calculation variant is assumed. Profit or loss is the total amount resulting from the deduction of costs from revenues, excluding the components of other comprehensive income.

5.18 Revenues

Sales revenues are recognized at the value of payments received or due for goods delivered or services provided within the normal course of business. Revenues shall be reduced by granted rebates; taxes in favor of third parties are not recognized as income. The sale of goods is recognized upon the delivery of goods and the transfer to the recipient of the significant risk associated with the delivery.

Revenues from services are determined after the service is provided, and include the costs associated with the provision of the service. Revenues related to long-term contracts (over 6 months) are recognized as revenues and expenses correspondingly to the stage of completion of the agreement at the end of the reporting period. Expected loss under long-term contract is recognized immediately as cost. Other operating income includes among others: profits from the sale of tangible fixed assets, received compensations related to losses on the insured property, or subsidies received as part of the EU programs (staff trainings and IT system implementation).

5.19 Financial revenues and borrowing costs

The financial revenues include: dividend income, interests on deposits and loans, a positive result on exchange rate differences, etc. Interest income is recognized cumulatively in relation to the principal due, in accordance with the effective interest method. Dividend income is recognized when the shareholder's right to receive payment is determined. The financial costs include: costs of the use of external financing that is credit interests, interests payable on finance lease agreements, negative result on exchange rate differences, etc. Borrowing costs are recognized as an expense in the profit and loss account in the period in which they are incurred. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, affect its initial value as part of the purchase price or production cost. These costs are subject to capitalization if it is probable that they will result in the future economic benefits for the entity, and the amount of these costs may be reliably determined.

5.20 Income tax

Income tax includes current and deferred tax. The current tax charge is calculated on the basis of the taxable income (taxable base) of the financial year. Tax profit (loss) differs from net accounting profit (loss) due to the exclusion of taxable income and non-deductible expenses and items of expenses and revenue that will never be taxable. Tax charges are calculated based on tax rates applicable in a given fiscal year. Deferred tax is calculated using the balance sheet method as a liability to be paid or reimbursed in the future based on differences between the carrying amounts of assets and liabilities and the corresponding tax amounts used to calculate the tax base. The deferred tax provision is recognized on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profits could be decreased by recognized temporary differences. The item of deferred tax asset or deferred tax provision is not created if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of another asset or liability in a transaction that has no impact on either the tax result or the accounting result. The value of deferred tax assets is reviewed at each balance sheet date and, if the expected future tax returns are not sufficient for the realization of an asset or a part thereof, an impairment loss is recognized. Deferred tax is calculated using tax rates that will apply when an asset item is realized or a liability becomes due. Deferred tax is recognized in profit or loss, except when it relates to items recognized directly in equity. In the latter case the deferred tax is also recognized directly in equity. In the balance sheet, the deferred tax is recognized as deferred income tax assets and a provision for deferred income tax, without establishing a set-off.

6 OPERATING SEGMENTS

6.1 Operating segments

Business operations of ARCUS Group were divided into business segments for presentation purposes:

- IT segment including sales and leasing of copying devices and equipment for mail and full office workflows management (office solutions),
- Telematics segment covering the services associated with vehicles fleet monitoring,
- Telemetry segment that includes the sale, installation and commissioning of equipment for the measurement of utilities such as electricity, gas and water,
- other service segment, including service, repair, lease services

Period from 01.01.2016 to 31.12.2016

	IT segment	Telematics segment	Telemetry segment	Other services segment	Total
Sales to external clients	91 425	2 427	1 402	25 775	121 029
Sales between segments	-			-	
Total segment's revenues	91 425	2 427	1 402	25 775	121 029
Segment's result	**11 786**	**-1 043**	**-943**	**-866**	8 934
Unassigned costs	-	-		-	-12 177
Profit on operating activities	-	-		-	-3 243
Net financial revenues	-	-		-	-1 168
Profit before tax	-	-		-	-4 411
Income tax	-	-		-	-1 102
Net profit for the financial year	-	-		-	-5 513
Assets and liabilities					
Segment's assets	**60 041**	**1 594**	**921**	**16 927**	**79 483**
Unassigned assets	-	0		-	22 631
Total assets					102 114
Segment's liabilities	**34 883**	**926**	**535**	**9 835**	**46 179**
Unassigned liabilities	-	-		-	55 935
Total Liabilities					102 114

Period from 01.01.2016 to 31.12.2016

	IT segment	Telematics segment	Telemetry segment	Other services segment	Total
Sales to external clients	130 677	2 234	8 343	40 410	181 664
Sales between segments	-	-		-	-
Total segment's revenues	130 677	2 234	1 510	40 410	181 664
Segment's result	**11 921**	**-1 684**	**-2 260**	**1 362**	**9 339**
Unassigned costs	-	-		-	-6 356
Profit on operating activities	-	-		-	2 983
Net financial revenues	-	-		-	-765
Profit before tax	-	-		-	2 218
Income tax	-	-		-	-829
Net profit for the financial year	-	-		-	1 389
Assets and liabilities					
Segment's assets	**58 386**	**998**	**3 728**	**18 055**	**81 166**
Unassigned assets	-	0		-	21 517

Total assets	58 386	998	3 728	18 055	102 683
Segment's liabilities	**30 017**	**513**	**1 916**	**9 282**	**41 729**
Unassigned liabilities	-	-		-	60 955
Total Liabilities					102 684

Other information on segments - Geographic information

Revenues		PLN THOUSAND
	year ended 31.12.2016	year ended 31.12.2015
Domestic sales	118 782	173 999
Sales abroad	2 247	7 665
Total	121 029	181 664

As at 31.12.2016 and 31.12.2015 the Group's assets were located mainly in Poland.

7 REVENUES STRUCTURE

Consolidated sales revenues

Sales revenues

	Year ended 31.12.2016	Year ended 31.12.2015
Revenues from sales of products	0	0
Revenues from sales of services	35 986	25 492
Revenues from sales of goods	85 043	156 172
Total sales revenues	**121 029**	**181 664**

The Group's activity is not subject to seasonality or cyclicality. Revenues are generated from fixed contracts and incidental contracts. The high share of incidental contracts in the sales, as well as characterizing these contracts – variable timing during the year, with an upward trend in the second half of the year, leads to different levels of sales achieved in the comparable periods of different years. At the same time, this factor does not have a significant impact on the comparability of the company's full-year results.

8 COSTS BY NATURE

Costs by nature	Year ended 31.12.2016	Year ended 31.12.2015
Value of goods sold	64 191	123 947
Third-party services	17 156	16 887
Remunerations and employee benefits	22 643	22 748
Consumption of materials and energy	12 847	9 413
Taxes and fees	1 226	1 421
Amortisation and depreciation	2 800	2 759
Other sundry expenses	1 797	1 586
Total	**122 660**	**178 760**
Change in inventory	-149	-58
Costs of operating activities	122 511	178 702
Sales costs	23 497	27 471
General and administrative costs	10 110	9 755
Cost of sales	**88 904**	**141 476**

9 OTHER OPERATING REVENUES

Other operating revenues

	Year ended 31.12.2016	Year ended 31.12.2015
Profits from the sales of fixed assets	542	130
Compensation received	13	0
Release of provisions	0	0
Reversal of impairment losses on receivables	0	0
Wage subsidies for disabled workers	0	0
Subsidies received	149	149
Other	735	903
Total	**1 439**	**1 183**

10 OTHER OPERATING COSTS

Other operating costs

	Year ended 31.12.2016	Year ended 31.12.2015
Loss on disposal of fixed assets	19	
Cost of repair of insured property	68	105
Liquidation of fixed assets	0	0
Donations		23
Impairment loss on inventory	1 636	381
Impairment loss on receivables	1 353	0
Costs of termination of agreements	0	0
Other	124	675
Total	**3 200**	**1 162**

In 2016 an impairment loss on receivables and inventory was established in the amount of PLN 3 million which burdened the operating result. It was a one-off event resulting from a conservative assessment of these assets.

11 FINANCIAL REVENUES

Financial revenues

	Year ended 31.12.2016	Year ended 31.12.2015
Dividends received	0	0
Interests on bank deposits	34	46
Other interests received	27	63
Other - including exchange differences	43	152
Total	**104**	**261**

12 FINANCIAL COSTS

Financial costs

	Year ended 31.12.2016	Year ended 31.12.2015
Interests on loans	173	287
Other interests	101	115
Exchange differences	0	0
Loss on disposal of investment		437
Discount – long-term contracts	190	114
Other	807	73
Total	**1 271**	**1 026**

A discount on a long-term contract and the result of the valuation of a forward contract for the purchase of EUR as at the balance sheet date, were recognized in financial costs.

13 INCOME TAX

The income tax charge in the consolidated profit and loss account for 2016 amounts to PLN 1,102 thousand (deferred tax). Tax, according to nominal rate amounts to PLN 838 thousand. Higher effective taxation ensues from permanent differences, non-activation of losses by companies, and the revaluation of deferred tax accrued in previous periods.

14 PROFIT PER SHARE

Profit per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted profit per share is calculated by dividing net profit for the period attributable to ordinary shareholders (after deducting interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of ordinary shares outstanding during the period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares).

There were no dilutive options at the end of the reporting periods.

Consolidated profit per share

	Year ended 31.12.2016	Year ended 31.12.2015
Weighted average number of shares	7 320 000	7 320 000
Net profit attributable to the shareholders of a Dominant Entity (PLN thousand)	-5 220	1 756
Net profit per share attributable to the shareholders of a Dominant Entity	-0,71	0,24
Diluted profit per share attributable to the shareholders of a Dominant Entity	-0,71	0,24

15 FIXED TANGIBLE ASSETS

Fixed assets

	01.01 do 31.12.2016	01.01 do 31.12.2015
Fixed assets		
Lands		
Buildings and structures	435	501
Machines and devices	1 406	734
Means of transport	1 376	1 830
Other	905	903
Fixed assets - total	**4 122**	**3 968**
Prepayments for fixed assets	225	235
Fixed assets under construction	0	25
Fixed tangible assets	**4 347**	**4 225**

Changes in fixed assets in the period from 01.01 to 31.12.2016

	Buildings and structures	Machines and devices	Means of transport	Other	Total
Net opening balance	**501**	**734**	**1 830**	**903**	**3 968**
Gross value					**0**
As at 01.01.2016	773	3 220	2 917	3 239	**10 149**
Increase - purchase	116	724	896	981	**2 717**
Decrease - sale and liquidation		584	814	1 679	**3 077**
As at 31.12.2016	**889**	**3 360**	**2 999**	**2 541**	**9 789**
Redemption					**0**
As at 01.01.2016	273	2 033	1 540	2 336	**6 182**
Increase – amortization and depreciation	181	418	709	623	**1 931**
Decrease - sale and liquidation		497	626	1 323	**2 446**
As at 31.12.2016	**454**	**1 954**	**1 623**	**1 636**	**5 667**
Net as at 31.12.2016	**435**	**1 406**	**1 376**	**905**	**4 122**

Changes in fixed assets in the period from 01.01 to 31.12.2015

	Buildings and structures	Machines and devices	Means of transport	Other	Total
Net opening balance	**561**	**1 449**	**1 645**	**902**	**4 557**
Gross value					
As at 01.01.2015	682	2 990	2 554	2 547	**9 773**
Increase - purchase	94	290	543	282	**1 209**
Decrease - sale and liquidation	3	60	180	590	**833**
As at 31.12.2015	**773**	**3 220**	**2 917**	**3 239**	**10 149**
Redemption					
As at 01.01.2015	121	1 541	909	2 645	**5 216**
Increase – amortization and depreciation	152	553	740	343	**1 788**
Decrease - sale and liquidation	1	61	109	652	**823**
As at 31.12.2015	**272**	**2 033**	**1 540**	**2 336**	**6 181**
Net as at 31.12.2015	**501**	**734**	**1 830**	**903**	**3 968**

16 INTANGIBLE ASSETS

INTANGIBLE ASSETS

	01.01 - 31.12.2016	01.01 - 31.12.2015
Software	961,00	1 300,00
Licenses	311,00	841,00
Other	3 454,00	2 131,00
Total	**4 726,00**	**4 272,00**
Expenditures for intangible assets	2 622,00	2 021,00
Total	**7 348,00**	**6 293,00**

Arcus Group does not have assets with indefinite useful lives.

Expenditures on intangible assets mainly relate to the planned implementation of the lease-sales accounting module and the CRM module. In connection with the strategic activities of ARCUS Group, the sale of devices of Kyocera Document Solution, is increasingly performed based on the lease model. Sales of this type is far more profitable and, in addition, positively affects the revenues and financial stability of the company. However, it involves a lot of operational and administrative work. Therefore, the company decided on the need to implement the module, which will improve the work of the team that supports the sales model, and will also provide significant automation for both reporting, invoicing and debt collection. The lease module will also provide far greater security in the implementation of these complex projects and will ensure data continuity. From a strategic point of view, the Management Board is of the opinion that such actions are necessary for Arcus Group. The CRM system will support both the sales process and will be an integral part of the entire business management system. It will streamline the operational processes of sales execution, and will also allow better use of material and human resources, providing insight into the effectiveness of the actions taken at each stage of a company's operations. The system will develop together with the Group.

Change in intangible assets in the period from 01.01.2016 to 31.12.2016

	Software	Licenses	Other	Total
Net opening balance	**1 201,00**	**708**	**2 363**	**4 272**
Gross value				
As at 01.01.2016	4 158,00	2 199	4 482	**10 839**
Increase - purchase	117,00	135	1 258	**1 510**
Decrease - liquidation	1 170	200	59	**1 429**
As at 31.12.2016	**3 105**	**2 134**	**5 681**	**10 920**
Amortisation and depreciation				
As at 01.01.2016	2 957	1 491	2 119	**6 567**
Increase – amortization and depreciation	308	393	168	**869**
Decrease - liquidation	1 121	61	60	**1 242**
As at 31.12.2016	**2 144**	**1 823**	**2 227**	**6 194**
Net as at 31.12.2016	**961**	**311**	**3 454**	**4 726**

Change in intangible assets in the period from 01.01.2015 to 31.12.2015

	Software	Licenses	Other	Total
Net opening balance	**1 322**	**1 128**	**2 139**	**4 569**
Gross value				
As at 01.01.2015	3 766	2 199	4 220	**10 185**
Increase - purchase	392		262	**656**

Decrease - liquidation				
As at 31.12.2015	**4 158**	**2 199**	**4 482**	**10 839**
Amortisation and depreciation				
As at 01.01.2015	2 444	1 071	2 081	**5 596**
Increase – amortization and depreciation	513	420	38	**971**
Decrease - liquidation	0			
As at 31.12.2015	**2 957**	**1 491**	**2 119**	**6 567**
Net as at 31.12.2015	**1 201**	**708**	**2 363**	**4 272**

17 GOODWILL ON CONSOLIDATION

Fair value as at balance sheet day	As at 31.12.2016	As at 31.12.2015
T-matic Systems SA - goodwill	3 029	3 029
Docusoft Sp. z o.o. - goodwill	1 352	1 352
ASI - goodwill	4 549	4 549
Geotik - goodwill	4 879	
Total	**13 808**	**8 930**

As at 31 December 2016, goodwill impairment tests were performed and the values shown in the table above.

In connection with the acquisition by ARCUS Group of Geotik (Ricaline) and due to the ongoing process of identification and valuation of the acquired entity's assets, in accordance with par. 61 IFRS 3 "Business Combinations", a provisional determination of goodwill being a surplus of the costs of a business combination amounting to PLN 5 050 thousand over the net fair value of pre-identified assets, liabilities and contingent liabilities of value amounting to PLN 171 thousand, was made. The goodwill of Geotik / Ricaline's in the amount of PLN 4,879 thousand, presented in this consolidated financial statement, will be adjusted in accordance with IFRS 3 within 12 months of the date of publication of this statement.

18 HELD-FOR-SALE FINANCIAL ASSETS

The Group does not have any assets available for sale.

19 LONG-TERM RECEIVABLES

Long-term receivables	As at 31.12.2016	As at 31.12.2015
Trade receivables from other entities *	7 556,0	7 675,0
Other receivables	125,0	85,0
Total	**7 681,0**	**7 760,0**

*) Long-term trade receivables are lease receivables.

Receivables with a maturity of more than 12 months are recognized as long-term receivables.

20 INVENTORY

Inventory	As at 31.12.2016	As at 31.12.2015
Gross goods	11 781,0	12 808,0
Impairment loss	-1 960,0	-396,0
Goods	142,0	102,0
Prepayments for deliveries	**9 963,0**	**12 514,0**

In 2016, impairment loss on inventory in the amount of PLN 1 626 thousand was recognized in costs.

Inventory of the value of PLN 10 million was a collateral for an overdraft both at the end of the reporting period and the comparable period.

21 SHORT-TERM RECEIVABLES

	As at 31.12.2016	As at 31.12.2015
Trade receivables from related entities not subject to consolidation	679,0	
Trade receivables from other entities*	35 412,0	40 103,0
Tax receivables	332,0	686,0
Advance payments		
Other receivables	19 230,0	13 330,0
Receivables claimed at court		
Impairment loss	-5 986,0	-4 367,0
Total	**49 667,0**	**49 752,0**

*) including short-term lease receivables

Change in impairment loss on trade receivables

	As at 31.12.2016	As at 31.12.2015
Opening balance	**4 367,0**	**4 193,0**
Recognition of impairment loss	**1 654,0**	**257,0**
On trade receivables	1 654,0	257,0
Use:	35,0	83,0
repayment	8,0	47,0
Write-off	27,0	36,0
Closing balance	**5 986,0**	**4 367,0**

22 CASH

Cash	As at 31.12.2016	As at 31.12.2015
Cash at hand		9,0
Cash in banks	1 079,0	3 747,0
Short-term deposits		624,0
Total	**1 079,0**	**4 380,0**

23 CONSOLIDATED EQUITY

Share capital

	Nominal value	Number of shares
As at 31.12.2015	0,10	7 320 000
As at 31.12.2016	0,10	7 320 000

series	Number of shares	Value of shares	contribution
D	7 320 000	732 000,00	cash

On 14 June 2012, the Annual General Meeting of Shareholders adopted the Resolution No 26 regarding the purchase of own shares for the purpose of their redemption in the amount of up to 10% of the share capital and at a price not exceeding 6 PLN per share. Share buyback started in September 2012 – as at 31.12.2013 the Company held 75,157 own shares purchased at an average price of 3.63 PLN. Mentioned shares accounted for 1.02% of the total capital and 1.02% of the total number of votes at the AGM. On 20 June 2013, under the Resolution No 12, the Ordinary General Meeting of Shareholders, decided to redeem the shares held by Arcus S.A. and to decrease the share capital. In accordance with Art. 456 of the Commercial Companies Code, the Company started convocation proceedings, which were completed in the 4th quarter of 2013 - no objections were raised by the creditors. On 20 June 2014, the Annual General Meeting of Shareholders, on the basis of the Resolution No 20, decided on the conversion of all existing shares of A, B and C series into D series shares, and on the basis of the Resolution No 21 on redemption of 75 157 shares, which was confirmed by the District Court in September 2014.

Shareholding structure of ARCUS S.A. (according to the Company's knowledge) as at 31 December 2016

	Number of shares	The value of share in the share capital	Share in the share capital
MMR Invest S.A.*	4 800 000,00	480 000,00	65,6
Others	2 520 000	252 000,00	34,4
Total	**7 320 000**	**732 000,00**	**100,0**

*- entity under the control of Mr. Marek Czeredys, Michał Czeredys and Rafał Czeredys.

24 SHARE PREMIUM ACCOUNT

Share premium account	As at 31.12.2016	As at 31.12.2015
Share premium account	37 631,00	37 631,0
Total	**37 631,00**	**37 631,0**

25 REVALUATION RESERVE

In the comparable period all shares of TAURON, which were subject to revaluation reserve, had been sold.

26 RETAINED EARNINGS

Retained earnings	As at 31.12.2016	As at 31.12.2015
Previous years' retained earinings	9 396,00	9 757,00
Consolidation adjustment		
Dividend payment	-290,00	-299,00
Profit (loss) – current period	-5 220,00	1 756,00
Own shares – decrease of share capital		
Change in capital - increase of capital in a subsidiary	248,00	-1 818,00
TOTAL	**4 134,00**	**9 396,00**

27 PROVISIONS FOR LIABILITIES

Provisions for liabilities	As at 31.12.2016	As at 31.12.2015
Provision for warranty repairs	118,00	118,00
Provision for retirement benefits and unused leaves	1 008,00	905,00
Total:	**1 124,00**	**1 023,00**
Including long-term:	434,00	438,00
Provision for warranty repairs		
Provision for retirement benefits and unused leaves	434,00	438,00
Short-term:	691,00	589,00
Provision for warranty repairs	118,00	118,00
Provision for retirement benefits and unused leaves	573,00	471,00

Change in provisions for liabilities	As at 31.12.2016	As at 31.12.2015
Opening balance	**1 022,00**	**1 911,00**
Creation of a provision	**270,00**	**260,00**
Provision for warranty repairs		
Provision for retirement benefits and leaves	414,00	240,00
Provision for other projected costs		20,00
Use of provisions	**136,00**	**543,00**
Provision for warranty repairs		434,00
Provision for retirement benefits and leaves	276,00	109,00
Provision for other projected costs	4,00	
Release of provisions	**31,00**	**606,00**
Provision for warranty repairs		443,00
Provision for retirement benefits and leaves	31,00	163,00
Closing balance	**1 125,00**	**1 023,00**

Group's companies pay retired employees the amount of retirement severance pay in the amount specified by the Labor Code. Accordingly, the companies, on the basis of a valuation made by a professional actuarial company, establish a provision for the current value of the retirement severance pay.

The main assumptions adopted by the actuary to calculate the amount of the liability are as follows:

	31.12.2016	31.12.2015
discount rate (%)	3,50%	3,00%
Expected remuneration growth rate (%)	3,50%	3,50%

Long-term liabilities as at 31.12.2016 in the amount PLN 8 204 thousand (2015 – PLN 7 650 thousand) include, apart from provisions for liabilities and deferred tax, lease liabilities in the amount of PLN 2 880 thousand recognized in other long-term liabilities (2015 – PLN 2 137 thousand).

28 TRADE AND OTHER LIABILITIES

	As at 31.12.2016	As at 31.12.2015
Other liabilities to related entities not subject to consolidation	307,00	150,00
Trade liabilities to other entities *	30 854,00	24 373,00
Tax and social security liabilities	6 605,00	7 280,00
Advance payments	84,00	
Remuneration liabilities	784,00	756,00
Other	3 178,00	4 671,00
Total	**41 812,00**	**37 229,00**

*) Including the amount of lease liabilities - PLN 2 476 thousand (PLN 3 300 thousand as at 31.12.2015)

29 LIABILITIES AND RECEIVABLES IN FOREIGN CURRENCIES

	Liabilities		Receivables	
	As at 31.12.2016	As at 31.12.2015	As at 31.12.2016	As at 31.12.2015
EUR	26 858,00	19 548,00	2 416,00	7 264,00
USD				
PLN	18 196,00	20 995,00	54 932,00	50 248,00
Total	**45 054,00**	**40 543,00**	**57 348,00**	**57 512,00**

30 CONTINGENT LIABILITIES

Contingent liabilities

	As at 31.12.2016	As at 31.12.2015
To other entities	57 675,00	63 877,0
Bill of exchange liabilities, including issued for:	**25 275,00**	**32 877,0**
Bank as a credit collateral	9 500,00	7 500,0
Insurance companies in respect of performance bond *	11 511,00	11 703,0
Contractors in respect of performance bond	3 844,00	4 674,0
Letters of credit		8 000,0
Bank guarantees	420,00	1 000,0
Assignment of receivables	**22 400,00**	**21 000,0**
Transfer of ownership of warehoused goods	**10 000,00**	**10 000,0**

* including insurance guarantee of Ergo Hestia in the amount of PLN 9.6 million related to the dispute with EOP (at the balance sheet date and at the end of comparable period)

On 16 December 2013 (current report No 36/2013) the consortium of Arcus S.A. and T-matic System S.A. received a notification from the District Court for the City of Warsaw, 16th Commercial Division, on institution of conciliation proceedings and on summoning Arcus S.A. and T-matic System S.A. Consortium by Energa-Operator S.A. to a conciliation hearing as regards the payment to be executed by Consortium at the amount of PLN 21 513 481.31 and referring to the claims arising from contractual penalties concerning the contracts for the delivery and launching of the meter infrastructure covered by the following agreements: ZP/62/AZU/2011 of 9 September 2011, ZP/63/AZU/2011 of 26 August 2011, ZP/64/AZU/2011 of 26 August 2011 and ZP/66/AZU/2011 of 25 October 2011 being the implementing documents for the Framework Agreement, on which the Company informed in a current report No 22/2011 of 28 June 2011. The session of a Court was initially planned to be held on 30 December 2013, but was postponed until 5 March 2014, and in March 2014 – at the request of the Parties, until 20 May 2014. The request of Arcus S.A. addressed to the court for a further postponement of the hearing, supported by Energa-Operator S.A., was not accepted by the Court and the case was dismissed at the hearing on 20 May 2014. In December, Consortium received from Energa-Operator S.A. a final call for payment, while at the same time the Consortium submitted to Energa-Operator S.A. a claim for payment for additional works going beyond the scope set forth in the agreements (current report No 26/2014 of 18 December 2014).

In December 2014, the Consortium received four debit notes from ENERGA-OPERATOR S.A. in the total amount of 21 183 221 PLN, which in the opinion of the Consortium were unjustified (current report No 25/2014 of 3 December 2014). In May 2015 Arcus S.A. received a claim for payment of the amount of 23 125 480,70 PLN (current report No 3/2015 of 15 May 2015). On 10 June 2015, the Consortium replied to the claim. In response to another preparatory letter of Energa-Operator S.A., on 18 December 2015 Arcus and T-matic lodged a pleading with additional arguments regarding the invalidity of contracts, which – as a consequence - changed the order of the taking of evidence in the case. On 13 January 2016, the first hearing was held, during which the court upheld the position of the Consortium and decided that the issue of the invalidity of contracts will be analyzed first. On 15 October 2015 Arcus S.A. together with its subsidiary company – T-matic Systems S.A. send to ENERGA-OPERATOR S.A. a letter of formal notice requesting Energa-Operator to join the negotiations as to the annulment of execution contracts for the delivery and setting up the meter infrastructure, including among others, the Implementation Agreement. The Issuer still remains convinced of the possibility of amicable settlement of the dispute by the Parties in order to avoid an escalation of a dispute relating to a total of over 450,000 metering devices installed by the consortium. On 12 November 2015, the Management Board of Arcus S.A. was informed by a professional legal representative in litigation on filing on 10 November 2015 together with T-matic Systems S.A. with its registered office in Warsaw with the Regional Court in Gdańsk (IX Commercial Department) the lawsuit against Energa-Operator S.A. with its registered office in Gdańsk to annul – on the basis of Art. 189 of the Civil Code, the Implementation Agreement of 1 February 2013 on the conclusion of which the Company informed in a current report no 4/2013 of 4 February 2013. The value of the subject-matter of dispute amounts to PLN 77 million. The supply and installation of 310 thousand PRIME-technology smart meters within the next stage of the performance of a project concerning consumers' smart metering was the subject-matter of the Implementation Agreement. Under mentioned Implementation Agreement, the Issuer and T-matic undertook to deliver the devices and software as well as to launch the metering infrastructure for a specific installation area. In line with the position presented by the Issuer and T-matic in the lawsuit, the Implementation Agreement contains essential structural irregularities, which indicate that the Implementation Agreement is subject to the sanction of absolute nullity, in particular due to the following two sets of circumstances:

a. there shall be no binding obligation (in all its essential aspects and elements required under the applicable law) between the Parties due to the fact that the subject of the Issuer's and T-matic company's services is not precisely defined therein, which results in de facto and de iure - failure to conclude the Agreement as such; and

b. Implementation Agreement infringes grossly a balance of contractual relationship, and therefore is inconsistent with the nature / substance of the obligation and is contrary to the principles of social coexistence, and thus is subject to sanctions of nullity.

It should be noted that the Implementation Agreement in its basic form is a supply contract, regulated by Article. 605 et seq. of the Civil Code, which also follows from the wording of Section 25.2 of the Implementation Agreement. The regulatory scope referred to above indicates that the supply contract constitutes a mutual contract with characteristics similar to the sale contract. It is therefore, in principle, an equivalent legal relationship, in which the supply of one Party (production and delivery of a product) corresponds to the supply of the counterparty (reception of goods and payment). In view of the above and having regard to the type of correspondence submitted by the defendant to the complainants, it should be noted that the correct, complete and adequate description of the subject-matter of the Agreement (i.e. a description of the subject-matter of the delivery, and thus the responsibilities of the consortium of the Issuer and T-matic) should identify and determine the subject of service of the Issuer and T-matic. Additionally this requirement refers to the so called *essentialia negotii* of the supply contracts named in the Civil Code, which is essential to define their existence in the legal system. Therefore, it must be assumed that lack of sufficiently precise definition of subject of Issuer's and T-matic company's service results in the lack of conclusion of Implementation Agreement as such. In the Implementation Agreement, a specific mechanism was provided for the purposes of verification of performance of the service by the Issuer and T-matic, and thus binding verification procedures were not determined which made it impossible for the Company to assess whether the service of the Company and T-matic corresponded to the Implementation Agreement or not. The subject-matter of the Implementation Agreement was determined inadequately and ambiguously, and at the stage of execution was subject to one-sided modifications by Energa-Operator. The Implementation Agreement also has a fundamental shortcoming associated with the position of the Parties in the framework of contractual relationship, especially in the context of the recognition of supply contract to be the progenitor of Implementation Agreement, which particularly applies to:

a. penalties reserved exclusively to one party, i.e. Energa-Operator;
b. allowing the possibility of cumulative contractual penalties imposed on the Issuer and T-matic (no possibility of charging any contractual penalties to the Contractor);
c. the possibility of cumulative contractual penalties imposed both from the point of view of the withdrawal from the Implementation Agreement, as well as failure to execute the Agreement within the specified time limit (and therefore the protection of two opposing interests of Energa-Operator, i.e. protection against failure to perform and improper performance of the above mentioned Implementation Agreement);
d. reservation of contractual penalties for failure to comply with the quality parameters of the Issuer's and T-matic company's service for reasons independent of the Issuer and T-matic;
e. possibility of unilateral withholding of products by Energa-Operator, without the consent of the Issuer and T-matic in case of withdrawal from the contract.

On 16 November 2015, Arcus S.A. received from Energa-Operator S.A. request for payment of the total amount of PLN 157 023 542 consisting of:

a. the amount of PLN 1 002 942 (one million two thousand nine hundred forty two) for the decrease of remuneration payable to the Issuer and T-matic for the products delivered in the course of performance of the Implementation Agreement for the delivery and launching of the meter infrastructure of 1 February 2013 ('Implementation Agreement') withheld by Energa-Operator;
b. the amount of PLN 156 060 200 (one hundred fifty six million sixty thousand two hundred) accrued by Energa-Operator on the basis of Implementation Agreement.

According to the analysis and evaluations of the Issuer, the Request is part a of the negotiation tactics of Energa-Operator, and the legal basis of the claim is clearly unfounded because of invalidity of the Implementation Agreement raised by the Issuer (current report no 21/2015 of 16 October 2015). This groundlessness also arises from the lack of factual or substantive grounds for the calculation of contractual penalties. Arcus S.A. legal position did not change, and on 10 November 2015 an action against Energa-Operator was brought to the court as to the annulment of Implementation Agreement (current report no 24/2015).

There were three court hearings in the reported period. At the hearing on 13 January 2016, the Court agreed to the position of the Consortium and decided to investigate the nullity of contracts in the first place. As a result, at the meetings on 18 March 2016, 6 May 2016, 1 July 2016, 23 September 2016 and 8 February 2017, the Court heard the witnesses of the Parties. In terms of the request of 16 November 2015 for the payment of the amount of PLN 157 023 542 addressed to the company by Energa Operator S.A., the current legal position of the Issuer has not changed. On 10 November 2015, a lawsuit was filed with a Court, against Energa Operator S.A., for the annulment of the Implementation Agreement, as reported by the Company in the current report No 24/2015.

In connection with the intentions of the Management Board to complete the dispute by way of amicable settlement, a petition was filed with a court for the issuance of summons to a conciliation hearing. The hearing on this matter was scheduled for 20 May 2016, during which another date of the hearing was determined. At the hearing on 5 August 2016, the parties filed a request for re-postponement of the hearing in order to agree on the detailed terms of the settlement. The court, having considered the arguments of both parties, agreed to the request and scheduled the next hearing for 20 December 2016. On 19 October 2016, the Management Board of Arcus S.A. addressed to Energa Operator S.A. a request for payment of the total amount of PLN 174,111,458.96 as compensation for damage sustained by the Issuer and for immediate cessation of unauthorized actions and omissions of Energa Operator concerning Implementation Agreements and the dispute between the Parties, which would increase the damage of the Company and T-Matic Systems S.A. or would result in violation of personal rights of Issuer or T-matic Systems S.A. In this respect, a petition was filed with a court for the issuance of summons to a conciliation hearing, however, until today the date of the hearing has not been set. On 1 March 2017, the Management Board of Arcus S.A. a letter from an insurer – Ergo Hestia S.A. (current report no 2/2017) dated 28 February 2017 concerning the request of Energa Operator S.A. for payment under the performance bond issued by Ergo-Hestia with regard to the Implementation Agreement concluded on 1 February 2013 between the Issuer, T-matic Systems S.A. and Energa, the subject of which was the delivery and setting up of the meter infrastructure as the Issuer informed in current report no 4/2013 ("the Agreement") – within the scope covering the claims of Energa against the Issuer and T-matic resulting from alleged improper performance of the Agreement (current report no 25/2015). On 25 April 2017, Arcus S.A. received from an insurer - Ergo Hestia S.A. a letter dated 5 April 2017 (current report no 4/2017) containing a demand for payment (plus statutory interest) of an amount PLN 9,597,702.30, representing the value of a performance bond executed by Ergo-Hestia on 3 March 2017 for the benefit of Energa Operator S.A. in connection with the Implementation Agreement concluded on 1 February 2013 between the Issuer, T-matic Systems S.A. and Energa. The Issuer invariably questions both the claims of Energa and the execution of a performance bond by Ergo-Hestia, considering them wholly unfounded. On 27 April 2017, the Management Board of Arcus S.A. received a decision dated 13 April 2017 of the Court of Appeals in Gdańsk, 9th Commercial Division granting, in accordance with the Issuer's and T-matic Systems S.A., the security (injunctive relief) for a claim of the Issuer and T-matic (hereinafter together referred to in as "the Eligible Parties") against Energa-Operator S.A. to order Energa a repayment for the benefit of an insurer – Ergo Hestia S.A.:

1. an amount of PLN 4,798,851.15 that is granting an unduly conferred (at the expense of the Issuer) benefit arising from the execution by Ergo-Hestia, at the request of Energa, of a performance bond associated with the Implementation Agreement concluded on 1 February 2013 between the Issuer, T-matic Systems S.A. and Energa, the subject of which was the delivery and setting up of the meter infrastructure as the Issuer informed in current report no 4/2013 (hereinafter "the Agreement") – within the scope covering the claims of Energa against the Issuer and T-matic resulting from alleged improper performance of the Agreement (current report no 25/2015);
2. an amount of PLN 4,798,851.15 that is granting an unduly conferred (at the expense of the T-matic) benefit arising from the execution by Ergo-Hestia, at the request of Energa, of a performance bond associated with the Agreement.

In accordance with the Decision, the Court ruled to secure the above claim by regulating the rights and obligations of the parties to the safeguard procedure for a period of its duration, in such a way that:

a. ordered Energa to reimburse to Ergo-Hestia an amount of PLN 9,597,702.30 within 30 days of the date of the Decision, provided that Ergo-Hestia grants to Energa a guarantee of payment of an amount PLN 9,597,702.30 exercisable in case of final disposal, to the detriment of Eligible Parties, of court proceedings initiated (following the safeguard procedure as a result of which a Decision was issued) by Eligible Parties against Energa as regards the claims secured with the Decision ("Proceedings");
b. ordered Eligible Parties to (i) request Ergo-Hestia to issue for the benefit of Energa a guarantee of payment of an amount PLN 9,597,702.30 exercisable in case of final disposal of the Proceedings to the detriment of Eligible Parties, and effective until 31 December 2017, and to (ii) request Ergo-Hestia to extend the period of guarantee for subsequent annual periods after 31 December 2017 until the final settlement of Proceedings, where such extensions shall be performed until 30 December each year at the latest. In addition, the Decision sets a two-week deadline for Eligible Parties to fill a lawsuit concerning claims secured with the Decision, under pain of nullity of the security granted. The Decision is effective and enforceable on the date of its issuance, but the other party is entitled to appeal to it

The guarantee was issued in connection with a lawsuit planned by Arcus S.A. to be filed against Energa-Operator for the payment of the amount of PLN 174, 111,458.98 as compensation for damage sustained by the Issuer and for immediate cessation of unauthorized actions and omissions of Energa Operator concerning Implementation

Agreements and the dispute between the Parties, which would increase the damage of the Company and T-Matic Systems S.A. or would result in violation of personal rights of Issuer or T-matic Systems S.A. (current report no 24/2016). On the basis of collected documentation as well in accordance with the law firm's opinion - the claim of Energa Operator S.A. is unjustified, and the potential outflow of cash associated with this claim is unlikely. Taking above into consideration, no provisions in respect of afore described dispute were created as at balance sheet day. The Management Board of Arcus S.A. emphasizes that due to the important public interest and precedential nature of the project, its intention is to settle the dispute in an amicable way.

31 ACQUISITION OF A SUBSIDIARY

On 29 December 2016, under a bilateral agreement, GEOTIK Sp. z o.o. was established within Arcus S.A. Group. The transaction was executed through a contribution in kind of an organised part of the T-matic Systems S.A. enterprise associated with the business operations on the telematics market, and through a contribution in the form of the enterprise under the name Rikaline Monika Majewska with its registered office in Wrocław. The structure of GEOTIK Sp. z o.o. share capital shall be as follows:

1. T-matic Systems S.A. acquired 28 014 shares with a total nominal value of PLN 1,400,700.00, representing 65.67% of the Company's share capital and votes at the General Meeting of Shareholders;

2. Monika Majewska acquired 14 645 shares with a total nominal value of PLN 732,250 representing 34.33% of the Company's share capital and votes at the General Meeting of Shareholders.

In accordance with an investment agreement concluded on 29 December 2016, it is expected that T-matic Systems S.A. will increase its share capital in 2017, as a result of which the shareholding of GEOTIK Sp. z o.o. will amount to 66.7%.

In connection with the acquisition by ARCUS Group of Geotik (Ricaline) and due to the ongoing process of identification and valuation of the acquired entity's assets, in accordance with par. 61 IFRS 3 "Business Combinations", a provisional determination of goodwill being a surplus of the costs of a business combination amounting to PLN 5 050 thousand over the net fair value of pre-identified assets, liabilities and contingent liabilities of value amounting to PLN 171 thousand, was made. The goodwill of Geotik / Ricaline's in the amount of PLN 4,879 thousand, presented in this consolidated financial statement, will be adjusted in accordance with IFRS 3 within 12 months of the date of publication of this statement. Geotik is a subsidiary of Arcus and is subject to full consolidation as of 31 December 2016 without affecting the consolidated result for 2016 due to the fact that there were no events that could materially affect the Group's result between the date of acquisition of the Company and the balance sheet date.

32 CREDIT AND LEASE AGREEMENTS

Lease agreements

As part of leasing agreements with leasing companies, the Group owns printing, copying and telemetry equipment that is leased to its customers. These contracts meet the terms of finance lease. As at the balance sheet date, lease liabilities amounted to PLN 5,356 thousand. The subject agreements are concluded for a period of 24 to 60 months.

Lease agreements	As at 31.12.2016	As at 31.12.2015
Payable within 1 year	2 476,00	3 300,00
Payable within the period of 1 to 5 years	2 880,00	2 137,00
Payable within the period over 5 years	0,00	0,00
Total	**5 356,00**	**5 437,00**

Credit agreements

As at 31 December 2016, the Company had an overdraft in the amount of PLN 6 million with maturity date falling on 30 September 2017. As at the balance sheet date the amount of PLN 2.7 million was used. According to the annex to the overdraft agreement signed on 28 December 2016, the amount of credit will gradually decrease, according to the repayment schedule, to PLN 1 million. As at the balance sheet date and until the date of publication of this report, there were no grounds for termination by the bank of the terms and conditions of the binding agreement. After the balance sheet date, the Company signed with Kyocera Document Solutions Europe B.V. an agreement on financing the supplies in the amount of EUR 4.3 million with collateral in the form of a bail granted by the majority shareholder. At 31.12.2016, a subsidiary - Arcus Systemy Informatyczne had an overdraft facility in the amount of PLN 2 million with maturity date falling on 28 February 2017. As at the balance sheet date the amount of PLN 1.5 million was used. The agreement has been extended, while the credit amount will be reduced in June 2017 - according to the schedule - to PLN 1.5 million.

33 SUBSIDIES

In the reporting period the Group did not receive new subsidies.

The subsidy to software to the amount of depreciation deductions made is recognized by the Group in other orating revenues.

34 TRANSACTIONS WITH RELATED ENTITIES

Transactions with related entities

Related entity	Sales	Acquisition	Receivables	Liabilities
2016				
ADD Polska Sp. z o.o S. Komandyt.	820,00		474,00	
Polmag	7,00			
Rafał Kręcisz	3,00	147,00	2,00	
Sławomir Majdański	3,00	120,00		
Piotr Golik	1,00	336,00		
Marek Czeredys				307,0
Michał Czeredys			203,0	
Total	**834,00**	**603,00**	**679,00**	**307,00**
2015				
Prof. Marek Wierzbowski	16,00	4,00		
ADD Polska Sp. z o.o S. Komandyt.		8,00		
Polmag	126,00		48,00	
Rafał Kręcisz	4,00	173,00		45,0
Piotr Pastuszka	2,00	323,00	65,00	
Sebastian Kręć		221,00		28,0
Sławomir Majdański	**3,00**	**131,00**		**37,0**
Piotr Golik		96,00		68,0
Michał Czeredys	**165,00**	**0,00**	**203,00**	**0,0**
Total	316,00	956,00	316,00	178,0

Related party transactions are executed on an arm's length basis.

35 REMUNERATION

Remuneration of senior executives

	Year ended 31.12.2016	Year ended 31.12.2015
Management Board	1 145,00	1 034,00
Supervisory Board	407,00	378,00
Management contract	300,00	318,00
Directors	3 816,00	3 919,00
Total	**5 668,00**	**5 649,00**

36 EXPLANATION OF DIFFERENCES BETWEEN DATA DISCLOSED IN THE FINANCIAL STATEMENT AND COMPARATIVE DATA

The comparative data included in this report do not differ from the data contained in the approved consolidated financial statement for 2015.

37 Employment

At 31 December 2016 Arcus Group employed 238 persons, while at the end of the comparable period - 224 persons.

38 OFF-BALANCE SHEET ITEMS

Details of the off-balance sheet liabilities are disclosed in section 30.

39 EVENTS AFTER BALANCE SHEET DATE

After the balance sheet date, the Company signed with Kyocera Document Solutions Europe B.V. an agreement on financing the supplies in the amount of EUR 4.3 million with collateral in the form of a bail granted by the majority shareholder.

On 1 March 2017, the Management Board of Arcus S.A. a letter from an insurer – Ergo Hestia S.A. (current report no 2/2017) dated 28 February 2017 concerning the request of Energa Operator S.A. for payment under the performance bond issued by Ergo-Hestia with regard to the Implementation Agreement concluded on 1 February 2013 between the Issuer, T-matic Systems S.A. and Energa, the subject of which was the delivery and setting up of the meter infrastructure as the Issuer informed in current report no 4/2013 (“the Agreement”) – within the scope covering the claims of Energa against the Issuer and T-matic resulting from alleged improper performance of the Agreement (current report no 25/2015). On 25 April 2017, Arcus S.A. received from an insurer - Ergo Hestia S.A. a letter dated 5 April 2017 (current report no 4/2017) containing a demand for payment (plus statutory interest) of an amount PLN 9,597,702.30, representing the value of a performance bond executed by Ergo-Hestia on 3 March 2017 for the benefit of Energa Operator S.A. in connection with the Implementation Agreement concluded on 1 February 2013 between the Issuer, T-matic Systems S.A. and Energa. The Issuer invariably questions both the claims of Energa and the execution of a performance bond by Ergo-Hestia, considering them wholly unfounded. On 27 April 2017, the Management Board of Arcus S.A. received a decision dated 13 April 2017 of the Court of Appeals in Gdańsk, 9th Commercial Division granting, in accordance with the Issuer’s and T-matic Systems S.A., the security (injunctive relief) for a claim of the Issuer and T-matic (hereinafter together referred to in as “the Eligible Parties”) against Energa-Operator S.A. to order Energa a repayment for the benefit of an insurer – Ergo Hestia S.A.:

1. an amount of PLN 4,798,851.15 that is granting an unduly conferred (at the expense of the Issuer) benefit arising from the execution by Ergo-Hestia, at the request of Energa, of a performance bond associated with the Implementation Agreement concluded on 1 February 2013 between the Issuer, T-matic Systems S.A. and Energa, the subject of which was the delivery and setting up of the meter infrastructure as the Issuer informed in current report no 4/2013 (hereinafter “the Agreement”) – within the scope covering the claims of Energa against the Issuer and T-matic resulting from alleged improper performance of the Agreement (current report no 25/2015);
2. an amount of PLN 4,798,851.15 that is granting an unduly conferred (at the expense of the T-matic) benefit arising from the execution by Ergo-Hestia, at the request of Energa, of a performance bond associated with the Agreement.

In accordance with the Decision, the Court ruled to secure the above claim by regulating the rights and obligations of the parties to the safeguard procedure for a period of its duration, in such a way that:

a. ordered Energa to reimburse to Ergo-Hestia an amount of PLN 9,597,702.30 within 30 days of the date of the Decision, provided that Ergo-Hestia grants to Energa a guarantee of payment of an amount PLN 9,597,702.30

exercisable in case of final disposal, to the detriment of Eligible Parties, of court proceedings initiated (following the safeguard procedure as a result of which a Decision was issued) by Eligible Parties against Energa as regards the claims secured with the Decision ("Proceedings");

b. ordered Eligible Parties to (i) request Ergo-Hestia to issue for the benefit of Energa a guarantee of payment of an amount PLN 9,597,702.30 exercisable in case of final disposal of the Proceedings to the detriment of Eligible Parties, and effective until 31 December 2017, and to (ii) request Ergo-Hestia to extend the period of guarantee for subsequent annual periods after 31 December 2017 until the final settlement of Proceedings, where such extensions shall be performed until 30 December each year at the latest. In addition, the Decision sets a two-week deadline for Eligible Parties to fill a lawsuit concerning claims secured with the Decision, under pain of nullity of the security granted. The Decision is effective and enforceable on the date of its issuance, but the other party is entitled to appeal to it.

The guarantee was issued in connection with a lawsuit planned by Arcus S.A. to be filed against Energa-Operator for the payment of the amount of PLN 174, 111,458.98 as compensation for damage sustained by the Issuer and for immediate cessation of unauthorized actions and omissions of Energa Operator concerning Implementation Agreements and the dispute between the Parties, which would increase the damage of the Company and T-Matic Systems S.A. or would result in violation of personal rights of Issuer or T-matic Systems S.A. (current report no 24/2016). On the basis of collected documentation as well in accordance with the law firm's opinion - the claim of Energa Operator S.A. is unjustified, and the potential outflow of cash associated with this claim is unlikely. Taking above into consideration, no provisions in respect of afore described dispute were created as at balance sheet day. The Management Board of Arcus S.A. emphasizes that due to the important public interest and precedential nature of the project, its intention is to settle the dispute in an amicable way.

40 RISK MANAGEMENT

Business risk assigned to Arcus Group is an inherent feature of the activity pursued. The Group identifies and regularly updates the risk in its core groups, along with estimating the probability of their occurrence and their value and impact on the group's economic situation. Due to the importance that the group attaches to risk management, the Management Board of Arcus S.A. is responsible for the development and implementation of risk management policy at the management level. Detailed assignment to specific classes of risk is associated with the division of responsibilities between the board members. In addition, their activities are supported by an ISO attorney and specialized audit, advisory and law firms. The Company uses hedging mechanisms to limit the potential negative effects of events that may occur as a result of risk materialisation. Recognizing the importance of risk management, the company established an audit committee and appointed a board member responsible for corporate and legal matters. In performing its business operations, the Company is exposed to the following risks:

40.1 Foreign exchange risk

Foreign exchange risk arises from the nature of the business - ARCUS S.A. is an importer of goods and services (from EUR and USD areas), which are which resold on the domestic market in PLN. Other Group's companies do not perform significant foreign exchange transactions. In 2016, the Group not issue derivative instruments.

40.2 Interest rate risk

As at 31.12.2016 ARCUS S.A. was a party to a working capital loan agreement of PLN 6m, based on a variable WIBOR interest rate plus an additional bank margin, and a party to a lease agreement, which is also based on the WIBOR rate. Other Group's companies are not parties to loan agreements and significant lease agreements. The Group's companies do not use interest rate hedging instruments since the impact of such risk on thier performance is minimal. Free cash is invested in short-term bank deposits.

40.3 Credit risk

Credit risk refers mainly to asset classes such as receivables, loans granted, cash and deposits, short-term financial assets. Customers who wish to establish a partnership and use merchant credit in transactions with the Group are subject to a verification procedure to assess their financial standing. Subsequently, arising trade receivables are subject to constant monitoring of the Commercial Department and the Financial Department. A large customer base and its diversification reduce the credit risk by becoming less dependent on small group of major customers.

40.4 Risk related to financial assets held

Such risk is related to the market valuation of financial assets held by the Company that are subject to periodic changes due to fluctuations in stock quotes. Risks associated with the estimates are described in Section 3.4 Estimates and judgments

40.5 Risk related to liquidity

The management of the Group's liquidity covers the following areas: current, constant monitoring of liabilities and trade receivables, cash flow and Company's cash needs forecasting, active cash management. Liquidity risk is the risk of losing the ability to settle the liabilities within time limits.

The risk arises from the potential restriction of an access to financial markets or changes in the attitude of banks to grant credits, which may result in inability to obtain new financing or refinancing the debt. The Group monitors the risk of lack of cash by adapting the financing structure to the projected future cash flows and diversifying sources of financing through the use of different products such as loans, financing by suppliers or finance lease agreements.

The reduction of the available overdraft facility after the balance sheet date is associated with a change in the Dominant Entity's financing model based on an increased financial commitment by the partner - Kyocera Document Solutions Europe B.V. Taking above into consideration, in the opinion of the Management Board, the risk of loss of liquidity should be assessed as moderate.

41 CAPITAL MANAGEMET

The main objective of the Group's capital management is to maintain a strong credit rating and healthy capital ratios in order to support the Group's operations and increase its value for shareholders. The Group manages the capital structure and introduces the relevant changes as a result of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may change the dividend payment to shareholders, return capital to shareholders or issue new shares. In the year ended 31 December 2016 and 31 December 2015, no changes were introduced to the objectives, principles and processes in force in this area. The Group monitors the balance of capital. Net debt includes interest-bearing loans and borrowings, trade and other liabilities, less cash and cash equivalents.

CAPITAL MANAGEMENT	As at 31.12.2016	As at 31.12.2015
Interest-bearing loans and borrowings	4 291,00	9 151,00
Trade and other liabilities	41 812,00	37 229,00
Less cash and cash equivalents	1 079,00	4 380,00
Net debt	**45 024,00**	**42 000,00**
Equity attributable to shareholders of a Dominant Entity	42 640,00	47 902,00
Net equity and debt	**87 664,00**	**89 902,00**

42 CLASSES OF FINANCIAL INSTRUMENTS

The table below compares the balance sheet values and fair values of all of the Group's financial instruments, broken down by classes and categories of assets and liabilities.

CLASSES OF FINANCIAL INSTRUMENTS

	As at 31.12.2016		AS at 31.12.2015	
	Fair value	Balance sheet value	Fair value	Balance sheet value
FINANCIAL ASSETS				
Loans granted	**476,00**	**476,00**	**622,00**	**622,00**
Available-for-sale assets	0,00	0,00	0,00	0,00
Trade receivables and other receivables	**57 348,00**	**57 348,00**	**56 778,00**	**56 778,00**
Cash and cash equivalents	1 079,00	1 079,00	4 380,00	4 380,00
FINANCIAL LIABILITIES				
Credit liabilities	4 291,00	4 291,00	9 151,00	9 151,00
Trade liabilities and other liabilities	45 054,00	45 054,00	40 543,00	40 543,00

Financial Statements of ARCUS S.A. Group for the year 2016 was approved for publication and signed by the Management Board of ARCUS S.A. on 28 April 2017.

Warsaw, 28 April 2017

…………………………………….	…………………………………….	…………………………………….
Michał Czeredys	Rafał Czeredys	Katarzyna Balcerowicz
President of the Management Board	Member of the Management Board	Chief Financial Officer
		Chief Accountant