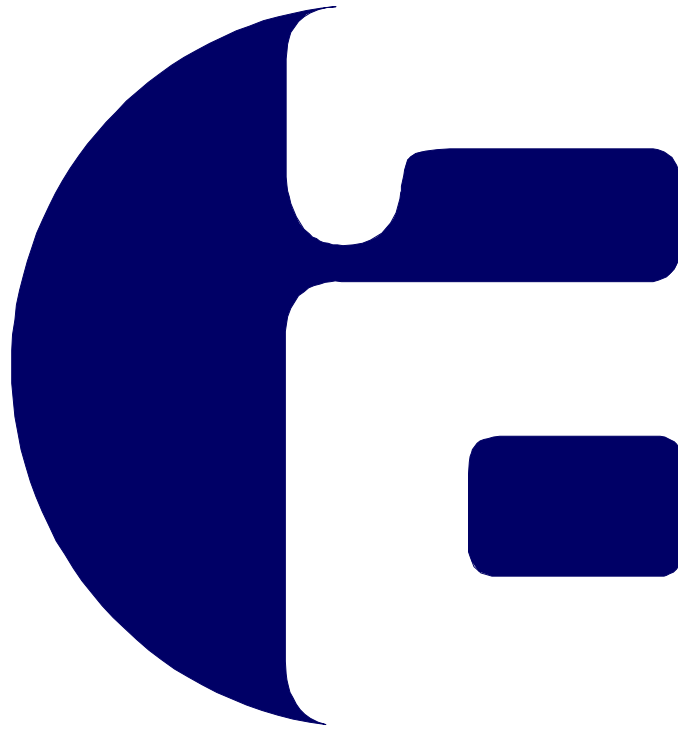


ARCUS Spółka Akcyjna

www.arcus.pl



Separate financial statement
of Arcus S.A.
for the financial year ended on 31 December 2016

Warsaw, 28 April 2017

1 Data regarding the annual financial statement of ARCUS S.A.

1.1 Selected financial data

item	SELECTED FINANCIAL DATA		EUR thousand		
	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	97 792	141 328	22 349	33 772
II	Profit (loss) on operating activities	-2 976	5 476	-680	1 309
III	Profit (loss) before tax	-4 070	4 869	-930	1 163
IV	Net profit (loss)	-3 341	3 763	-764	899
V	EBITDA	-1 211	7 349	-277	1 756
VI	Comprehensive income	-3 341	4 029	-764	963
VII	Net Cash Flows from operating activities	5 250	-6 291	1 200	-1 503
VIII	Net Cash Flows from investing activities	-1 804	-1 303	-412	-311
IX	Net Cash Flows from financing activities	-7 092	1 867	-1 621	466
X	Change in cash	-3 646	-5 728	-833	-1369
XI	Net profit (loss) and diluted net profit (loss) per share	-0,46	0,51	-0,1	0,12
		PLN thousand		EUR thousand	
		as at 31.12.2016	as at 31.12.2015	as at 31.12.2016	as at 31.12.2015
XII	Total assets	111 169	112 124	25 129	26 311
XIII	Long-term liabilities	6 949	7 549	1 571	1 771
XIV	Short-term liabilities	40 713	37 727	9 203	8 853
XV	Equity	63 508	66 849	14 355	15 687
XVI	Share capital	732	732	165	172
XVII	Weighted average number of shares	7 320 000	7 320 000	7 320 000	7 320 000
XVIII	Book value and diluted book value per share	8,68	9,13	2,2	2,14

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	12	3 205	3 304
Intangible assets	13	4 199	3 181
Participating interests in subordinated entities	14	19 495	19 585
Loans granted	19	5 167	5 674
Financial assets available for sale	15	0	0
Financial assets held to maturity	16	15 094	12 000
Long-term receivables	17	7 515	7 384
Deferred income tax assets	10	5 010	3 828
<u>Total</u>		<u>59 685</u>	<u>54 956</u>
CURRENT ASSETS			
Inventories	18	9 350	12 018
Loans granted	19	430	558
Trade receivables and other receivables	20,28	41 173	40 416
Financial assets held to maturity	16	0	0
Cash	21	531	4 177
<u>Total</u>		<u>51 484</u>	<u>57 169</u>
TOTAL ASSETS		111 169	112 124
Liabilities			
	Note	as at 31.12.2016	as at 31.12.2015
Equity			
Share capital	22	732	732
Share premium	23	38 024	38 024
Retained earnings	24	24 751	28 093
<u>Total</u>		<u>63 507</u>	<u>66 849</u>
Long-term liabilities			
Deferred income tax reserve	10	3 714	3 261
Provisions for liabilities	25	429	429
Other financial liabilities – credits	26	0	0
Other long-term liabilities	26	2 806	3 859
<u>Total</u>		<u>6 949</u>	<u>7 549</u>
Short-term liabilities			
Trade liabilities and other liabilities	27,28	37 770	28 387
Other financial liabilities – credits	26	2 707	9 105
Provisions for liabilities	25	235	235
<u>Total</u>		<u>40 713</u>	<u>37 727</u>
TOTAL LIABILITIES		111 169	112 124

1.4 Profit and loss account

	Note	year ended 31.12.2016	year ended 31.12.2015
Sales revenues	4	97 792	141 328
Costs of products, goods and materials sold	5	-74 892	-108 774
<u>Gross profit (loss) from sales</u>		<u>22 900</u>	<u>32 554</u>
Other operating income	6	1 167	594
Costs of sales	5	-17 614	-21 183
General administrative expenses	5	-6 419	-6 081
Other operating expenses	7	-3 009	-408
<u>Operating income (loss)</u>		<u>-2 975</u>	<u>5 476</u>
Financial income	8	197	497
Financial costs	9	-1 291	-1 105
Result on financing activities		-1 094	-607
<u>Profit (loss) before tax</u>		<u>-4 069</u>	<u>4 869</u>
Income tax:	10	728	-1 106
Current income tax		0	0
Deferred income tax		728	-1 106
<u>Net profit (loss)</u>		<u>-3 341</u>	<u>3 763</u>
Profit (loss) per share			
Ordinary and diluted	11	-0,46	0,51

1.5 Statement of comprehensive income

	year ended 31.12.2016	year ended 31.12.2015
Net profit (loss) for the period	-3 341	3 763
Items that may in future be classified as a result:		
Financial assets available for sale		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		0
Comprehensive income for the period	-3 341	4 029
Comprehensive income (loss) per share		
Ordinary and diluted	-0,46	0,55

1.6 Statement of cash flows

	<u>year ended 31.12.2016</u>	<u>year ended 31.12.2015</u>
Cash flows from operating activities		
Profit before tax	-4 070	4 869
Adjustments	9 319	-11 160
Depreciation and amortisation	1 765	1 873
Interests	117	-8
Result on investing activities	-542	479
Change in inventories	2 668	1 630
Change in receivables	-1 621	-14 790
Change in liabilities and reserves	6 772	-345
Paid income tax	0	0
Other	160	0
Total	<u>5 249</u>	<u>-6 291</u>
Cash flows from investing activities		
Inflows	1 264	5 670
Disposal of intangible and tangible fixed assets	1 069	212
Disposal of financial assets (shares of TAURON)	0	1 636
Repayment of loans	195	1 222
Repayment of promissory notes	0	2 600
Dividends received	0	0
Outflows	-3 067	-6 974
Purchases of intangible and fixed tangible assets	-1 217	-718
Payments for share capital increase in a subsidiary	-70	-3 123
Loans granted	-1 780	-3 133
Other		
Total	<u>-1 803</u>	<u>-1 303</u>
Cash flow from financing activities		
Inflows	16	2 498
Credits	0	2 431
Interests received	16	67
Outflows	-7 108	-631
Purchase of participating interests	0	0
Payment of dividend		
Purchase of own shares		
Repayment of credits and loans	-6 397	
Financial lease payments	-436	-284
Interests paid	-275	-348
Total	<u>-7 092</u>	<u>1 867</u>
Change in cash	<u>-3 646</u>	<u>-5 728</u>
Cash at the beginning of the period	4 177	9 905
Cash at the end of the period	531	4 177

1.7 Statement of changes in equity

For the period of 1 January – 31 December 2016

	Called up share capital	Share premium	Retained earnings	Revaluation reserve	Shares purchased for the purpose of redemption	TOTAL
As at 1 January 2016	732	38 024	28 092	0	0	66 848
Profit/loss for the period			-3 341			-3 341
Financial assets available for sale adjusted by deferred income tax						0
Total of comprehensive income	0	0	-3 341	0	0	-3 341
Dividend						0
As at 31 December 2016	732	38 024	24 751	0	0	63 507

For the period of 1 January – 31 December 2015

	Called up share capital	Share premium	Retained earnings	Revaluation reserve	Shares purchased for redemption	TOTAL
As at 1 January 2015	732	38 024	24 329	-267	0	62 818
Profit/loss for the period			3 763			3 763
Financial assets available for sale adjusted by deferred income tax				267		267
Total of comprehensive income	0	0	3 763	267	0	4 030
Dividend						0
As at 31 December 2015	732	38 024	28 093	0	0	66 849

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

2.1 Key information

ARCUS S.A. has been already operating for 30 years 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%

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

The Company is the parent company of the ARCUS S.A. Group and prepares consolidated financial statements.

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

Core business of ARCUS S.A. 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).

During the reporting period, the Company did not discontinue any business activity.

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.

2.2 Statements of the Management Board

Statement on the reliability of the separate 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 separate 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. and its financial result, and that the annual Management Board's report on ARCUS S.A. activities comprises a comprehensive view of development and achievements of ARCUS S.A., 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 financial statements 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.

.....
Michał Czeredys
President of the Management Board

.....
Rafał Czeredys
Member of the Management Board

3 ACCOUNTING PRINCIPLES

3.1 Basis for preparing financial information

Presented 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 Company's financial year is the calendar year. In the reporting period, there were no changes in the applied accounting principles. The financial statements have been prepared on the assumption that the Company 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 business operations.

ARCUS S.A. is a Parent Company of ARCUS S.A. Group and prepares consolidated financial statements. The Company's Group is composed of the following subsidiaries: T-matic Systems S.A., Geotik Sp. z o.o. (a subsidiary of T-matic), Arcus Systemy Informatyczne Sp. z o.o., Docusoft Sp. z o.o., Durau Sp. z o.o., LMT (subsidiary of Durau) and Arcus Kazachstan Sp. z o.o.

3.2 Statement of compliance

Presented 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.

3.3 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 financial statement are consistent with the principles set out in the approved financial statement of Arcus S.A. 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 Company has not decided for the early application of any standard, interpretation or amendment that has been issued but is not yet effective. The Management Board believes that above mentioned standards and interpretations will not result in a material impact on the accounting policy applied by the Company.

3.4 Accounting judgments and estimates

The preparation of the financial statement requires the Company's Management Board to make estimates, as some of the information contained in the financial statements cannot be measured precisely. The Management Board reviews these estimates based on changes in the factors taken into account for the purposes of their calculation, new information or past experience.

Therefore, the estimates made as at 31 December 2016 may be revised in the future. Professional judgment made as at 31 December 2016 relates to provisions for claims and litigation as well as to contingent liabilities. It is also used in the assessment of risk associated with the repayment of overdue receivables - the Company at each balance sheet day verifies its provisions for overdue receivables, taking into account the potential risk of significant delays in their repayment.

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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 Company annually reviews the economic useful life periods based on current estimates.

Impairments losses on tangible assets

The Company reviews 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 in subsidiaries are based on the three-year financial forecasts adopted by the Management Board. Information about the performed tests is presented in Note 3.5.3.

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 sales, the value of these assets for the Company may change.

Provisions for impairment of receivables

The Company recognizes 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 Company recognizes 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 29, 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 Company recognizes 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 Management Board.

3.5 Outline of key accounting principles

3.5.1 Intangible assets

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

The Company depreciates its intangible assets in the following periods:

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

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

3.5.2 Fixed tangible assets

Tangible fixed assets include fixed assets and fixed assets under construction, which the Company 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 entity. 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.

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. At the balance sheet date, fixed assets and fixed assets under construction are measured at cost less any potential impairment losses. In case of exchange of fixed assets the price of an acquisition is measured at fair value, if the exchange transaction has commercial substance. ARCUS S.A. 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 S.A. does not hold any fixed tangible assets classified as “held for sale”. In the reporting period the Company 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.

3.5.3 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 Company 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. 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 S.A. 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. Granted loans and receivables with maturities exceeding 12 months from the balance sheet date are classified as fixed assets. ARCUS S.A. has granted loans to subsidiaries: T-matic Systems S.A., Docusoft Sp. z o.o. and Durau Sp. z o.o. Loans and receivables are measured at amortized cost using the effective interest rate.

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.

Subsidiaries

In the financial statement, investments in subsidiaries not classified as held-for-sale, in accordance with IFRS 5, are recognized at cost in accordance with IAS 27 “Separate Financial Statement”, less impairment loss in accordance with IAS 36 “Impairment of assets” where impairment loss is estimated by comparing the carrying value with the higher of the two amounts: fair value and value in use.

As at 31 December 2016, the verification and impairment tests of financial assets were performed out with regard to participating interests in the following companies: Arcus Systemy Informatyczne Sp. z o.o., DocuSoft Sp. z o.o., T-matic Systems S.A., Durau Sp. z o.o. In 2016 Arcus Kazakhstan did not perform business operations and its value was estimated on the basis of separate methodology.

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)
Arcus Kazakhstan	replacement value

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. With regard to Arcus Kazakhstan Sp. z o.o. an impairment loss was recognized on the basis of the estimated value in use. 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.

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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
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⁽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 at the value of T-matics participating interests presented in the assets of Arcus S.A. amounting to PLN 9.0 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

3.5.4 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.

3.5.5 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.

3.5.6 Impairment losses on assets

At each balance sheet date, the Company reviews 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.

3.5.7 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.

3.5.8 Equity

3.5.8.1 *Share capital*

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

3.5.8.2 *Statutory capital reserve resulting from the share premium*

In the second half of 2007, ARCUS S.A. 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 38 024 thousand PLN.

3.5.8.3 *Retained earnings*

Retained earnings include earnings retained in the Company on the basis of the shareholders' decision as well as the result of the period.

3.5.9 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.

3.5.10 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.

3.5.11 Reserves and provisions

Reserves and provisions are created when the Company has 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 Company 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 Company during the warranty period without the possibility of transferring them to the manufacturer.

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.

3.5.12 Employee benefits

As far as employee benefits are concerned, the Company is not a party to any wage agreements or collective agreements. The company also does not have pension schemes managed directly by the company or by external funds. The costs of employee benefits include remuneration paid in accordance with the terms and conditions of employment contracts concluded with individual employees. According to the applicable rules on remuneration, employees are entitled to retirement and disability severance pay. The Company does not establish assets that might be used for future settlement of liabilities due to retirement benefits. The Company recognizes a provision for future liabilities on severance pay in order to allocate costs to the periods to which they relate. The value of future retirement liabilities of the Company is calculated by a qualified actuary using the method of accumulated future benefits, with consideration of the projected increase in the remuneration constituting the basis for calculation of future benefits, the assumed discount rate, the probability of reaching by an employee of a retirement age (the probability of achieving the rights to one-time retirement benefit), the likelihood of disability of an employee before reaching the retirement age (the probability of achieving the rights to one-time disability severance pay), under the condition of continuance of employment contract with the current employer. The amount of the provision is reviewed once a year - at the end of a given financial year. Actuarial profits and losses are not recognized in equity because of their insignificance. In the event of termination of employment, employees of the Company are entitled to the benefits provided for by the applicable Polish labor laws, among other the equivalent for unused leave. The provision for the equivalent for unused leave is reviewed on the last day of the financial year and on the last day of the first half of the year.

3.5.13 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 Company, are recognized respectively in financial costs or revenues.

3.5.14 Leasing

Company as a lessee

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.

Company as a lessor

Assets transferred under financial lease are derecognized from fixed assets of the Company. 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.

3.5.15 Statement of comprehensive income

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

3.5.16 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.

3.5.17 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. Dividend income is recognized at the time when the shareholders' right to receive payment is determined. **Other operating income and expenses.** 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). Other operating costs include among others: loss on sale of tangible fixed assets, donations made, revaluation of non-financial assets or other costs associated with losses on company's assets.

3.5.18 Financial revenues and borrowing costs

The financial revenues include: dividend income, interests on deposits and loans, a positive result on exchange rate differences, etc. 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, and impairment losses on financial assets. 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.

3.5.19 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.

4 OPERATING SEGMENTS

An operating segment is a component of an entity

- that engages in an economic activity in connection with which it may earn revenue and incur expenses (including revenue and expenses associated with transactions with other components of the same entity)
- whose performance is regularly reviewed by the entity's primary operating decision-making body who uses that result to determine the allocation of resources to the segment and to evaluate segment performance, and
- for which separate financial information is available.

Business operations of ARCUS S.A. 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 (services are being transferred to a subsidiary),
- Telemetry segment that includes the sale, installation and commissioning of equipment for the measurement of utilities such as electricity, gas and water (transferred to a subsidiary at the end of a comparable period),
- service segment, including service, repair, and integration services for ICT (information and communication technology).

Financial income and expenses as well as taxes are not disclosed by segments, as these are monitored at the Company level and not reported to decision makers at the segment level. Unassigned assets include shares in subsidiaries, assets held for sale, deferred tax assets and cash. Unassigned liabilities include equity, loans and a provision for income tax. Within the segments presented, the Company identified one customer, generating more than 10% of segment revenue. The Company's revenues for the twelve months of 2016 from this customer amounted to PLN 14,952 thousand. These revenues were related to the IT segment.

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<u>Period from 01.01.2016 to 31.12.2016</u>	IT segment	Telematics segment	Telemetry segment	Other services segment	Total
Revenues	82 908	170		14 713	97 791
Sales to external clients	82 908	170		14 713	97 791
Total segment's revenues	82 908	170		14 713	97 791
Segment's result	9 298	106		-4 239	5 165
Unassigned costs	-	-		-	-8 140
Profit on operating activities	-	-		-	-2 975
Net financial revenues	-	-		-	-1 094
Profit before tax	-	-		-	-4 069
Income tax	-	-		-	728
Net profit for the financial year	-	-		-	-3 341
Assets and liabilities					
Segment's assets	73 024	150	0	12 959	86 133
Unassigned assets	-	-	-	-	25 036
Total assets	-	-	-	-	111 169
Segment's liabilities	34 963	72		6 205	41 240
Unassigned liabilities	-	-	-	-	69 929

Total liabilities	-	-	-	-	111 169
Period from 01.01.2015 to 31.12.2015	IT segment	Telematics segment	Telemetry segment	Other services segment	Total
Revenues	122 875	236	600	17 617	141 328
Sales to external clients	122 875	236	600	17 617	141 328
Total segment's revenues	122 875	236	600	17 617	141 328
Segment's result	10 617	101	-493	938	11 163
Unassigned costs	-	-	-	-	-5 687
Profit on operating activities	-	-	-	-	5 476
Net financial revenues	-	-	-	-	-607
Profit before tax	-	-	-	-	4 869
Income tax	-	-	-	-	-1 106
Net profit for the financial year	-	-	-	-	3 763
Assets and liabilities					
Segment's assets	73 496	141	359	10 537	84 534
Unassigned assets	-	-	-	-	27 590
Total assets	-	-	-	-	112 124
Segment's liabilities	28 613	55	140	4 102	32 910
Unassigned liabilities	-	-	-	-	79 215
Total liabilities	-	-	-	-	112 124

Other information on segments - Geographic information

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Revenues	year ended 31.12.2016	year ended 31.12.2015
Domestic sales	95 545	133 823
Sales abroad	2 247	7 505
Total	97 792	141 328

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

5 REVENUES STRUCTURE

Sales revenues	year ended 31.12.2016	year ended 31.12.2015
Revenues from sales of services	21 689	18 906
including interests achieved from the lease contracts	1 083	1 188
Revenues from sales of goods	76 103	122 422
Total sales revenues	97 792	141 328
including to related entities	924	2 297

The company's activity is not subject to seasonality or cyclicity. 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.

6 COSTS BY NATURE

Sundry expenses	year ended 31.12.2016	year ended 31.12.2015
Consumption of materials and energy	12 039	8 659
Third-party services	11 359	11 841
Taxes and fees	1 168	1 356
Remunerations	12 691	13 335
Employee benefits	2 497	2 602
Amortisation and depreciation	1 765	1 873
Other sundry expenses	1 333	1 142
Value of goods sold	56 074	95 229
<u>Total</u>	<u>98 926</u>	<u>136 037</u>
Change in inventory		
Sales costs	17 614	21 183
General and administrative costs	6 419	6 081
Cost of sales	74 892	108 773

7 OTHER OPERATING REVENUES

Other operating revenues	year ended 31.12.2016	year ended 31.12.2015
Profits from the sales of fixed assets	542	125
Subsidies received	149	149
Other	476	320
<u>Total</u>	<u>1 167</u>	<u>594</u>

Received in previous years subsidy for software is recognized by the Company, to the amount of depreciation write-down established, in other operating revenues.

8 OTHER OPERATING COSTS

Other operating costs	year ended 31.12.2016	year ended 31.12.2015
Impairment loss on financial assets (receivables)	1 254	83
Impairment loss on non-financial assets (inventory)	1 636	70
Written off receivables		55
Other	119	201
<u>Total</u>	<u>3 009</u>	<u>409</u>

In 2016 an impairment loss on receivables and inventory was established in the amount of PLN 2 890 thousand which burdened the operating result. It was a one-off event resulting from a conservative assessment of these assets.

9 FINANCIAL REVENUES

	year ended 31.12.2016	year ended 31.12.2015
Interests on bank deposits	19	41
Interests on loans granted	139	268
Other interests received		48
Other - including exchange differences	39	140
<u>Total</u>	<u>197</u>	<u>497</u>

10 FINANCIAL COSTS

	year ended 31.12.2016	year ended 31.12.2015
Interests	173	281
Borrowing costs	101	67
Impairment loss financial assets	189	160
Exchange differences	467	
Loss on disposal of investment		437
Other	359	161
<u>Total</u>	<u>1 289</u>	<u>1 106</u>

In the reporting period an impairment loss was recognized on shares in the company in Kazakhstan in the amount of PLN 160 thousand. The results of forward transaction valuation in the amount of PLN 189 thousand as well discount ensuing from the settlement of repair and maintenance contract were recognized in financial costs.

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11 INCOME TAX

Income tax	year ended 31.12.2016	year ended 31.12.2015
Income tax rate	19%	19%
Current income tax	0	0
Deferred income tax	728	-1 106
Related to temporary differences and reversal of temporary differences	-521	-1 640
Associated with the activation of tax losses	1 249	535
Tax charge disclosed in the profit and loss account	728	-1 106
<u>Current income tax</u>	<u>year ended 31.12.2016</u>	<u>year ended 31.12.2016</u>
Gross profit before tax	-4 070	4 869
permanent differences in income tax	256	306
temporary differences in income tax	-2 762	-2 359
use of the loss incurred in 2011		-1 067
use of a part of the loss incurred in 2014		-1 749
Tax base	0	0
Tax charge disclosed in the profit and loss account	0	0

Tax losses to be used		amount to be used	
Year of loss			asset
2014		4 652	884
2016		6 576	1 249

Deferred income tax	Profit and loss account		
	as at 31.12.2016	as at 31.12.2015	year ended 31.12.2016
Difference in the carrying and tax value of financial assets	2 578	2 485	-93
Valuation of a repair-maintenance contract	806	556	-250
Other	330	220	-110
Provision for deferred tax	3 714	3 261	-453
Impairment loss on inventory	501	190	311
Impairment loss on shares	62	31	31
Exchange rate differences from the valuation of settlements	121	78	43
Impairment loss on receivables	1 048	747	301
Provision for retirement benefits	85	85	0
Unpaid liabilities	0	1 077	-1 077
Difference in the carrying and tax value of fixed assets	493	383	110
Tax loss	2 133	884	1 249
Other	567	353	213
Deferred tax assets	5 010	3 828	1 181
Deferred income tax expense			728

12 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.

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Profit per share		
	as at 31.12.2016	as at 31.12.2015
number of shares	7 320 000	7 320 000
Net profit (loss) (PLN thousand)	-3 341	3 763
Net profit (loss) and diluted profit (loss) per share - PLN	-0,46	0,51

13 DIVIDENDS PAID AND DECLARED FOR PAYMENT

In the reporting period, the Company did not pay or receive dividends.

14 FIXED ASSETS

<u>Fixed assets</u>	as at 31.12.2016	as at 31.12.2015
Lands	0	0
Buildings and structures	365	415
Machines and devices	618,00	592,00
Means of transport	1 119,00	1 449,00
Other	879,00	618,00
Fixed assets - total	2 981,00	3 074,00
Fixed assets under construction	0,00	0,00
Prepayments for fixed assets	224,00	230,00
Fixed tangible assets	3 205,00	3 304,00

<u>Changes in fixed assets in the period from 01.01 to 31.12.2016</u>				
	Buildings and structures	Machines and devices	Means of transport	Other
Net As at 01.01.2016	415,00	592,00	1 449,00	618,00
Gross value				
As at 01.01.2016	664,00	2 341,00	2 737,00	2 864,00
Increase - purchase	116,00	311,00	491,00	939,00
Decrease - sale and liquidation		338,00	795,00	1 559,00
As at 31.12.2016	780,00	2 314,00	2 433,00	2 244,00
Redemption				
As at 01.01.2016	249,00	1 749,00	1 288,00	2 246,00
Increase – amortization and depreciation	166,00	273,00	543,00	441,00
Decrease - sale and liquidation		326,00	517,00	1 322,00
As at 31.12.2016	415,00	1 696,00	1 314,00	1 365,00
Net as at 31.12.2016	365,00	618,00	1 119,00	879,00

<u>Changes in fixed assets in the period from 01.01 to 31.12.2015</u>				
	Buildings and structures	Machines and devices	Means of transport	Other
Net As at 01.01.2015	459,00	768,00	1 677,00	743,00
Gross value				
As at 01.01.2015	572,00	2 219,00	2 462,00	3 254,00
Increase - purchase	94,00	161,00	406,00	198,00
Decrease - sale and liquidation	2,00	39,00	131,00	588,00
As at 31.12.2015	664,00	2 341,00	2 737,00	2 864,00
Redemption				
As at 01.01.2015	113,00	1 451,00	785,00	2 511,00
Increase – amortization and depreciation	137,00	337,00	563,00	311,00
Decrease - sale and liquidation	1,00	39,00	60,00	576,00
As at 31.12.2015	249,00	1 749,00	1 288,00	2 246,00
Net as at 31.12.2015	415,00	592,00	1 449,00	618,00

15 INTANGIBLE ASSETS

INTANGIBLE

	as at 31.12.2016	as at 31.12.2015
Software	341,00	338,00
Licenses	481,00	719,00
Other	65,00	3,00
Total	887,00	1 060,00
Expenditures for intangible assets	3 312,00	2 121,00
Total	4 199,00	3 181,00

Arcus S.A. 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 S.A., 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. 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 company.

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Change in intangible assets in the period from 01.01.2016 to 31.12.2016

	Software	Licenses	Other
Net as at 01.01.2016	338,00	719,00	3,00
<i>Gross value</i>			
As at 01.01.2016	1 143,00	2 151,00	130,00
Increase - purchase	104,00	135,00	71,00
Decrease - liquidation	31,00	194,00	59,00
As at 31.12.2016	1 216,00	2 092,00	142,00
<i>Amortisation and depreciation</i>			
As at 01.01.2016	805,00	1 432,00	127,00
Increase – amortization and depreciation	94,00	236,00	11,00
Decrease - liquidation	24,00	57,00	61,00
As at 31.12.2016	875,00	1 611,00	77,00
Net as at 31.12.2016	341,00	481,00	65,00

Change in intangible assets in the period from 01.01.2015 to 31.12.2015

	Software	Licenses	Other
Net as at 01.01.2015	277,00	1 095,00	9,00
<i>Gross value</i>			
As at 01.01.2015	978,00	2 111,00	130,00
Increase - purchase	205,00	2,00	0,00
Decrease - liquidation	0,00	2,00	0,00
As at 31.12.2015	1 143,00	2 151,00	130,00
<i>Amortisation and depreciation</i>			
As at 01.01.2015	701,00	1 016,00	121,00
Increase – amortization and depreciation	104,00	416,00	6,00
Decrease - liquidation	0,00	0,00	0,00
As at 31.12.2015	805,00	1 432,00	127,00
Net as at 31.12.2015	338,00	719,00	3,00

16 SHARES AND PARTICIPATING INTERESTS IN SUBSIDIARIES

Shares and participating interests in subsidiaries	%		as at 31.12.2016	as at 31.12.2015
	Share in capital	Share in votes		
Share in T-matic Systems	74,7%	67,6%	9 005,0	9 005,0
Share in ASI	53,0%	53,0%	7 986,0	7 986,0
Share in Durau	84,1%*	84,1%	371,0	301,0
Share in Docusoft	87,0%	90,1%	2 010,0	2 010,0
Share in Arcus Kazakhstan	100,0%	100,0%	123,0	283,0

* 100% as at 31.12.2015

As at 31 December 2016, ARCUS S.A. held shares and participating interests in subsidiaries representing the value of 19 495 thousand PLN (value as at the end of the comparable period - 19 585 thousand PLN). By a notarial deed of 2 December 2016, the Company acquired new shares in the increased share capital of Durau Sp. z o.o. of value amounting to PLN 70 thousand. In the opinion of the Management Board, as at 31 December 2016, there was no evidence of impairment loss on shares in subsidiaries, that is: Arcus Systemy Informatyczne Sp. z o.o., Docusoft Sp. z o. o., T-matic Systems SA, Durau Sp. z o.o. In four cases, annual valuation of entities and fair value measurements were performed, which did not show a need for revaluation, and showed that future cash flows would be at least equal to the value of shares at the balance sheet date. In case of Arcus Kazakhstan Sp. z o.o. an impairment loss was recognized to the amount of PLN 123 thousand. Details regarding the impairment tests performed are presented in note 3.5.3. As of the balance sheet date, shares in subsidiaries are not subject to pledges or other restrictions related to disposing of them.

17 HELD-FOR-SALE FINANCIAL ASSETS

No items both at the end of the reporting period and the comparable period.

18 HELD-TO-MATURITY FINANCIAL ASSETS

Bills of exchange from a subsidiary T-matic Systems were recognized in financial held-to-maturity financial assets (fixed assets) as at the end of 2015. On 30 June 2016, the issue of four-year, zero-coupon bonds of T-Matic Systems with a nominal value of PLN 18 million took place.

The entire issue was subscribed by Arcus S.A. as a result of the conversion of bills of exchange, part of loans receivables and trade receivables totaling PLN 15,094 million representing the issue value of bonds, which as at 31 December 2016 is presented in the financial statement of Arcus S.A. in fixed assets also in the item – held-to-maturity financial assets, in the amount of PLN 15,094 million (as a rule, they were measured at amortized cost but a cautious approach was applied to the accrued interest which resulted in the fact that they were not recognized in assets).

19 LONG-TERM RECEIVABLES

Long-term receivables

	as at 12.2016	as at 31.12.2015
Trade receivables *	7 420,0	7 339,0
Other receivables	95,0	44,0
Total	7 515,0	7 384,0

*) Long-term trade receivables are receivables from lease of equipment to Clients

20 INVENTORY

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	as at 31.12.2016	as at 31.12.2015
Gross goods	11 172,0	12 316,0
Impairment loss	-1 960,0	-396,0
Goods	9 212,0	11 920,0
Prepayments for deliveries	138,0	98,0
Total inventory	9 350,0	12 018,0

Inventory aging	up to 180 days	181 - 360 days	over 360 days	Inventory - total
as at 31.12.2016	5 794,0	1 946,0	3 433,0	11 172,0
as at 31.12.2015	7 778,0	932,0	3 606,0	12 316,0

Inventory

	as at 31.12.2016	as at 31.12.2015
Inventory covered by the assignment agreement as a security of an overdraft	10 000,0	10 000,0

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 LOANS GRANTED TO GROUP COMPANIES

Loans granted to related entities

	as at 31.12.2016	as at 31.12.2015
Loans granted	4 562,0	5 196,0
<i>including long-term loans</i>	0,0	0,0
Interests on loans granted	605,0	477,0
Total	5 167,0	5 674,0
<i>including to:</i>		
T- matic Systems	2 650,0	3 429,0
DocuSoft	1 047,0	1 001,0
DuraU	1 470,0	1 244,0

Loans granted in current assets are recognized as loans to unrelated parties.

22 TRADE AND OTHER RECEIVABLES

Trade and other receivables; income tax receivables

	as at 31.12.2016	as at 31.12.2015		
Trade receivables from related entities under consolidation	367,0	1 289,0		
Trade receivables from other entities*	39 317,0	36 927,0		
Prepayments and accrued income, including:	5 681,0	4 967,0		
margin and revenues relating to long-term contracts	4 239,0	2 927,0		
the value of used materials settled over the duration of the contract	1 007,0	1 149,0		
Other prepayments and accrued income	435,0	891,0		
Other receivables	1 302,0	1 180,0		
Impairment loss	-5 495,0	-3 947,0		
Total	41 172,0	40 416,0		
Aging of trade receivables	up to 60 days	60 - 180 days	over 180 days	Total
as at 31.12.2016				
trade receivables within due date				31 445,0
overdue receivables	1 972,0	773,0	4 882,0	7 933,0
Trade receivables - total (gross)				39 378,0
as at 31.12.2015				
trade receivables within due date				30 283,0
overdue receivables	1 893,0	1 084,0	3 954,0	7 933,0
Trade receivables - total (gross)				38 216,0

*Where the amount of PLN 6 150 thousand represent the short-term lease receivables (PLN 6,2 million as at 31.12.2015).

Impairment loss on receivables

	as at 31.12.2016	as at 31.12.2015
Opening balance	3 947	3 939
Creation of new impairments	1 557	83
Release of impairments	8	39
Use of impairments		36
Closing balance	4 235	3 947

Terms of transactions and transactions with related parties are presented in Note 34. Description of the risks associated with trade receivables and other receivables as well as the Company's policy in terms of the management of these risks is presented in Note 2.4. The increase in trade receivables at the end of the reporting period compared to the end of 2016 results from increased sales at the end of the reporting period.

23 CASH

Cash

	as at 31.12.2016	as at 31.12.2015
Cash at hand		12,0
Cash in banks	531,0	3 540,0
Short-term deposits		625,0
Total	531,0	4 177,0

24 EQUITY

Share capital

	Nominal value	Number of shares
as at 31.12.2014	0,10	7 320 000
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	method of 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 shres	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.

25 SHARE PREMIUM ACCOUNT

	as at 31.12.2016	as at 31.12.2015
Share premium account	38 024,00	38 024,0
Total	38 024,00	38 024,0

26 RETAINED EARNINGS

Retained earnings	as at 31.12.2016	as at 31.12.2015
Statutory write-off	249,00	249,00
Earnings retained by owners' decision over the required value	24 502,00	27 843,00
Total	24 751,00	28 092,00

27 PROVISIONS FOR LIABILITIES

Provisions for liabilities	as at 31.12.2016	as at 31.12.2015
Provision for warranty repairs	61,00	61,00
Provision for retirement benefits and unused leaves	604,00	604,00
Total	664,00	664,00
<i>including:</i>		
Long-term	429,00	429,00
Provision for warranty repairs		
Provision for retirement benefits and unused leaves	429,00	429,00
Short-term	235,00	235,00
Provision for warranty repairs	61,00	61,00
Provision for retirement benefits and unused leaves	175,00	175,00

Change in provisions for liabilities

	as at 31.12.2016	as at 31.12.2015
Opening balance	664,00	1 242,00
Creation of a provision	0,00	0,00
Provision for warranty repairs	0,00	0,00
Provision for retirement benefits and leaves	0,00	0,00
Use of provisions	0,00	0,00
Provision for warranty repairs	0,00	0,00
Provision for retirement benefits and leaves	144,00	0,00
Release of provisions	0,00	578,00
Provision for warranty repairs	0,00	434,00
Provision for retirement benefits and leaves	144,00	144,00
Provision for balance sheet audit	0,00	0,00
Closing balance	664,00	664,00

The Company pays retired employees the amount of retirement severance pay in the amount specified by the Labor Code. Accordingly, the Company, on the basis of a valuation made by a professional actuarial company, establishes 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%

28 LONG-TERM LIABILITIES

Long-term liabilities as at 31.12.2016 amount to PLN 6 949 thousand and include, apart from provisions for liabilities and deferred tax, lease liabilities in the amount of PLN 2 444 thousand. At the end of the comparable period, in long-term liabilities amounting to PLN 7 549 thousand, apart from provisions for liabilities and deferred tax, the Company had also recognized long-term lease liabilities in the amount of PLN 3 859 thousand.

29 SHORT-TERM LIABILITIES

Short-term trade liabilities and other liabilities

	as at 31.12.2016	as at 31.12.2015
Trade liabilities to related entities subject to consolidation	1 250,00	1 052,00
Trade liabilities to other entities	27 586,00	18 521,00
Tax and social security liabilities	5 506,00	5 694,00
Advance payments received	0,00	0,00
Payroll liabilities	396,00	380,00
Other*	3 032,00	2 740,00
Total	37 770,00	28 387,00

Aging of trade liabilities	up to 60 days	60-180 days	over 180 days	Total
as at 31.12.2016				
trade liabilities within due date				24 895,0
overdue liabilities	3 735	158	48,0	547,0
Trade liabilities - total				28 836,0
as at 31.12.2015				
trade liabilities within due date				12 654,0
overdue liabilities	6 631	262	26,0	6 919,0
Trade liabilities - total				19 573,0

*) Including the amount of short-term lease liabilities of PLN 2 264 thousand (as at 31.12.2015 - the amount of PLN 2,024 thousand)

Tax and social security liabilities refer particularly to VAT for December 2016, PIT and social security contributions paid in December 2016. Terms of transaction and transactions with related entities are presented in Note 34.

30 LIABILITIES AND RECEIVABLES IN FOREIGN CURRENCIES (LONG-TERM AND SHORT-TERM)

Liabilities and receivables in foreign currencies
(long-term and short-term)

	Liabilities		Receivable	
	as at 31.12.2016	as at 31.12.2015	as at 31.12.2016	as at 31.12.2015
EUR	26 335,00	17 815,00	2 170,00	4 800,00
USD	0,00	0,00	0,00	0,00
PLN	14 211,00	14 431,00	46 517,00*	43 000,00
Total	40 576,00	32 246,00	48 687,00	47 800,00

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31 CONTINGENT LIABILITIES AS AT 31 DECEMBER 2016

Contingent liabilities

	as at 31.12.2016	as at 31.12.2015
To other entities	47 431,0	58 503,0
Bill of exchange liabilities, including issued for:	19 431,0	28 503,0
Bank as a credit collateral	7 500,0	7 500,0
Insurance companies in respect of performance bond	11 511,0	11 703,0
Insurance companies in respect of guarantee for security payment		300,0
Letters of credit		8 000,0
Bank guarantees	420,0	1 000,0
Assignment of receivables	18 000,0	20 000,0
Transfer of ownership of warehoused goods	10 000,0	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.

32 CREDIT AND LEASE AGREEMENTS

As part of leasing agreements with leasing companies, the Company 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 4,708 thousand. The subject agreements are concluded for a period of 24 to 60 months.

Lease liabilities	as at 31.12.2016	as at 31.12.2015
Payable within 1 year	2 264,00	2 024,00
Payable within the period of 1 to 5 years	2 444,00	3 098,00
Payable within the period over 5 years	0,00	0,00
Total	4 708,00	5 122,00

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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.

33 SUBSIDIES

In the reporting period the Company did not receive new subsidies. The subsidy for software at the amount of 746 thousand PLN received by the Company in previous years is recognized in other operating income with consideration of amortization charges.

As at 31 December 2016, the amount to be settled was equal to PLN 149 thousand (as at the end of comparable period – PLN 299 thousand) and was recognized in short-term liabilities as other liabilities.

34 TRANSACTIONS WITH RELATED ENTITIES

Transactions with related entities

	Sale	Acquisition	Receivables	Liabilities
Related entity				
	2016			
Docusoft Sp. z o.o.	6,00	757,00	1,0	73,0
T-Matic Systems S.A.	428,00	77,00	334,0	3,0
Durau Sp. z o.o.	55,00		18,0	
ASI Sp. z o.o.	420,00	1 634,00	1,0	1 165,0
LMT Sp. z o.o.		3,00		3,0
Geotik Sp. z o.o.	9,00	4,00	11,0	4,0
Michał Czeredys			203,0	
Polamg Sp. z o.o.	6,00			
Total	924,00	2 475,00	568,00	1 248,00
Loan granted to T-Matic			2 287,0	
Loan granted to Docusoft			1 047,0	
Loan granted to Durau			1 470,0	
	2015			
Docusoft Sp. z o.o.	6,00	568,00	0,0	148,0
T-Matic Systems S.A.	541,00	960,00	509,0	10,0
Durau Sp. z o.o.	6,00	0,00	21,0	0,0
ASI Sp. z o.o.	1 728,00	1 835,00	774,0	894,0
Marek Wierzbowski	16,00	4,00	0,0	0,0
Michał Czeredys	165,00	0,00	203,0	0,0
Polamg Sp. z o.o.	126,00		48,0	
Total	2 588,00	3 367,00	1 555,00	1 052,00
Loan granted to T-Matic			3 229,0	
Loan granted to Docusoft			1 001,0	
Loan granted to Durau			1 244,0	
Loan granted to ADD Polska			19,0	

35 REMUNERATION OF SENIOR EXECUTIVES

Remuneration of senior executives

	year ended 31.12.2016	year ended 31.12.2015
Management Board	652,00	517,00
Supervisory Board	255,00	234,00
Directors	3 316,00	3 446,00
Total	4 223,00	4 197,00

36 EMPLOYMENT

At 31 December 2016 Arcus S.A. employed 144 persons, while at the end of the comparable period by 5 persons more – that is 149 persons.

37 OFF-BALANCE SHEET ITEMS

Details of contingent liabilities are disclosed in point 31.

38 EVENTS AFTER BALANCE SHEET DAY

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.

39 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:

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39.1 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. Receivables and liabilities in foreign currencies as at the end of the reporting and comparable periods are presented in Note 29. In 2016, the Company did not issue derivative instruments.

39.2 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 (see note 32), and a party to a lease agreement, which is also based on the WIBOR rate. The Company does not use interest rate hedging instruments since the impact of such risk on the Company's performance is minimal. Free cash is invested in short-term bank deposits.

39.3 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 Company 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.

39.4 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. At the end of the reporting period, the company did not have any assets traded on active markets.

39.5 Risk related to liquidity

The management of the Company'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 Company 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 Company'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. The risks associated with estimates are described in Section 3.4 - Estimates and Judgments.

40 CAPITAL MANAGEMENT

The main objective of the Company's capital management is to maintain a strong credit rating and healthy capital ratios in order to support the Company's operations and increase its value for shareholders. The Company 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 Company 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 Company 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	2 707	9 105
Trade and other liabilities	40 576	32 246
Less cash and cash equivalents	531,00	4 177
Net debt	42 752,42	37 174
Equity	63 507	66 849
Net equity and debt	106 260	104 023

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41 CLASSES OF FINANCIAL INSTRUMENTS

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

	As at 31.12.2016		As at 31.12.2015	
	balance sheet value	fair value	balance sheet value	fair value
FINANCIAL ASSETS				
Loans granted	5 597,00	5 597,00	6 232,00	6 232,00
Shares in related entities	19 495,00	19 495,00	19 585,00	19 585,00
Available-for-sale assets	0,00	0,00	0,00	0,00
Held-to-maturity financial assets	15 094,00	15 094,00	12 000,00	12 000,00
Trade receivables and other receivables	48 688,47	48 688,47	47 800,00	47 800,00
Cash and cash equivalents	531,00	531,00	4 177,00	4 177,00
FINANCIAL LIABILITIES				
Credit liabilities	2 707,42	2 707,42	9 105,00	9 105,00
Trade liabilities and other liabilities	40 576,00	40 576,00	32 246,00	32 246,00

Impairment tests have confirmed the value of the financial assets disclosed in this financial statement. For the purpose of impairment testing of the shares held, their fair value was determined using the income method.

Financial Statements of ARCUS S.A. 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

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Michał Czeredys
President of the Management Board

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Rafał Czeredys
Member of the Management Board

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Katarzyna Balcerowicz
Chief Financial Officer
Chief Accountant