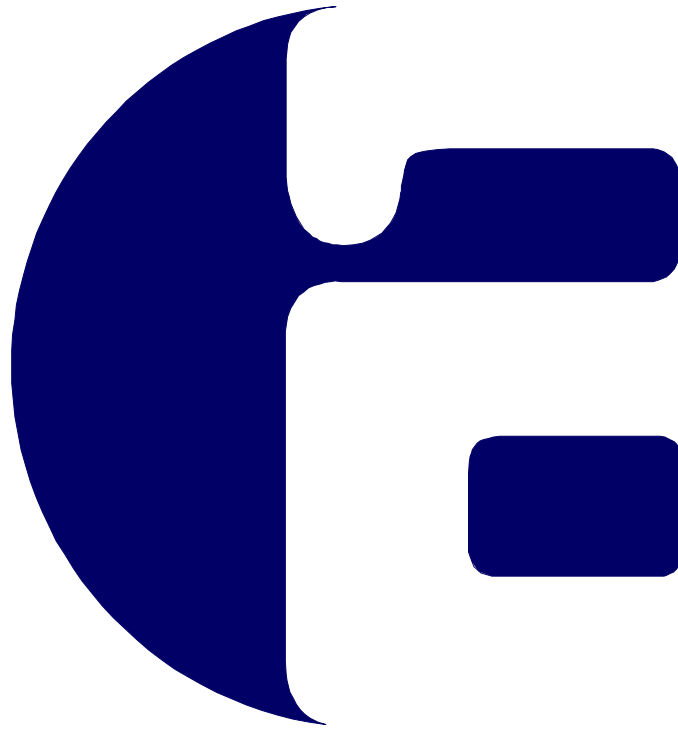


ARCUS Spółka Akcyjna

www.arcus.pl



Report of the Management
Board
of ARCUS S.A.

on business activities

of the Company in 2016

Warsaw, 28 April 2017

Ladies and Gentlemen, Dear Shareholders,

The year 2016 was for Arcus Group a time of intensive work on increasing sales profitability and strengthening the market position.

The objective of the Management Board in 2016 and in subsequent years is to continuously improve the sales margin. To achieve this goal, Arcus Group companies focus on providing customers, both institutional and commercial, with comprehensive IT systems, where the offered devices are only one component of the solutions being implemented. An important assumption of the development of Clients portfolio is to focus on attracting Clients from the SME sector, which allows to spread the business risk of operations performed on several thousand corporate customers with which Arcus Group signed several-year service contracts. The year 2016 confirms the effectiveness of this strategy. It allowed to offset the effects of stagnation in public procurement of IT solutions for the administration and State Treasury companies. This is possible thanks to long-term contracts for the rental or lease of equipment, software and comprehensive solutions. In addition to providing the aforementioned stable revenues, these contracts help to avoid a price war that forces suppliers to establish very low margins on the products they offer.

In 2017, Arcus Group companies will continue to focus on the enterprise sector, especially small and medium-sized. The experience of recent years shows that solutions offered by the Arcus Group companies have a significant impact on the development of their business by optimizing costs, increasing efficiency, and as a result, the competitiveness on the market. The above concentration of activities on the commercial market does not exclude the participation of Arcus Group in public procurements. We treat these activities as complementary and capable of generating additional income. In the event of opening the tender procedures, Arcus Group companies will monitor the market on a regular basis and decide to engage only in profitable projects. We are convinced that the use of a strong experience of Arcus Group companies and numerous references will allow us to win a lot of proceedings and avoid the risk of large IT tenders for the state administration (including delays caused by tenderers' protests and erosion of margins).

In the area of intelligent energy infrastructure in 2016, there were no significant tenders, while their execution is delayed until 2017 and subsequent years. According to the New Energy Law, taking into account the EU directives in this area, 80% of electricity consumers in Poland will be obliged to have an intelligent electricity meter installed by 2020. This means that in the coming years electricity suppliers will have to launch large investment projects in this area. Despite the lack of new tenders, Arcus Group implemented a project for PGE in 2016, which reception by the client took place at the beginning of 2017. The above project is another confirmation of the high qualifications of our team as well as the strength of our offer in terms of intelligent infrastructure.

Work on resolving the dispute with Energa Operator in terms of implementation of the intelligent energy meter implementation project, is ongoing as well. The Management Board of Arcus S.A. is convinced that the parties will agree an amicable solution. In connection with a claim from Energa Operator addressed to our insurer, Ergo Hestia paid the amount of the guarantee. In parallel, the company obtained from the District Court a security order in the form of imposing on Energa Operator the obligation to reimburse the insurer the amount paid. The justification of the above decision is also important, as the Court emphasized that the companies Arcus and T-matic Systems have confirmed the fact connected with the incorrect and unprepared implementation of the project by the Ordering Party, i.e. by Energa Operator.

The court also upheld Arcus Group's position and argument that Energa Operator repeatedly changed technical requirements that made it difficult or even impossible for the project to be implemented by Arcus S.A. and T-matic Systems S.A. Because the mere fact that the dispute is pending, constitutes both for the public and for the institutions financing the company, the problem that prevents faster development and injures the reputation of the company, Arcus S.A. calculated its losses with the help of an expert valuer and will soon file a lawsuit against Energa Operator.

Year 2017 is the year in which Arcus S.A. will celebrate the jubilee of its presence on the Polish market. We are with You already 30 years. During this time both Poland and our Company changed. We are constantly working to ensure that our group's offer match the market requirements and allow to optimize our customers' activities and costs. Therefore, an important factor of our development is to increase the intensification of activities both in the field of document management systems, printing environment development, and implementation of ERP systems, CRM and entire sets of tools for a modern, unified communications (UC).

Nowadays, customers expect the provider to offer the widest range of IT solutions and assume full responsibility for their integration. Thanks to the extension of competence in other areas, we are able to meet these requirements. The Management Board will focus on further increasing the operating profits, improving EBITDA, and entering long-term contracts securing the revenues in the long run. The performance of these goals will translate into increasing the goodwill for the benefit of the Shareholders and our Clients.

Yours sincerely,

*Michał Czeredys
President of the Management Board of ARCUS S.A.*

1 Basic information about the Company

ARCUS S.A. – basic data

Company:	ARCUS S.A. ul. Kolejowa 5/7, 01-217 Warszawa
Registered office:	01-217 Warszawa
Telephone:	+ 48 22 536 09 00
Fax:	+ 48 22 831 70 43
e-mail:	arcus@arcus.pl
website:	www.arcus.pl

1.1 Management and Supervisory Boards

Management Board

As 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 – Member of the Management Board.

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

Supervisory Board

In accordance with Articles of Association of ARCUS S.A., the Company's Supervisory Board shall be composed of 5 to 10 members. As at 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 as a Member of the Supervisory Board on the basis of the Resolution of the Extraordinary General Meeting of Shareholders held on 31 August 2016.

By the Resolution of the Supervisory Board of 9 July 2015, within the structure of the Supervisory Board, the Audit Committee was appointed in the following composition: Bogusław Wasilewko, Tomasz Konewka, Tomasz Pelc and Marek Czeredys. After the resignation of Mr. Tomasz Pelec, as from 31 December 2015 until 26 January 2016, the Audit Committee was composed of three persons. By the resolution of the Supervisory Board, on 26 January 2016 Mr. Leszek Lechowski was appointed to the Audit Committee. By the resolution of the Supervisory Board, on 31 August 2016 Mr. Michał Łotoszyński was appointed to the Audit Committee as a Chairman. By the resolution of the Supervisory Board, on 27 October 2016 the following composition of the Audit Committee was determined: Michał Łotoszyński, Marek Czeredys, Tomasz Konewka. The Audit Committee is chaired by Mr. Michał Łotoszyński.

Share capital of the Company and shareholding structure

In accordance with decisions of the General Meeting of Shareholders, in 2014 the share capital of ARCUS S.A. was reduced by PLN 7 515.70 and currently amounts to PLN 732 000.00 and is divided into 7 320 000 bearer ordinary shares (D-series shares), of nominal value of PLN 0.10 each, conferring the right to 7 320 000 votes. All shares are admitted to public trading on the Warsaw Stock Exchange.

Shareholding structure of ARCUS S.A. as at 31 December 2016 and 28 April 2017

(according to the best knowledge of the Management Board)

Shareholding structure	Number of shares = Number of	Nominal value of shares held (PLN)	Share in the share capital = share in the total number of votes
MMR Invest S.A. ⁽¹⁾	4 800 000	480 000	65,6%
Others	2 520 000	252 000	34,4%
TOTAL	7 320 000	732 000	100,0%

⁽¹⁾ entity under the control of Mr. Marek Czeredys, Michał Czeredys and Rafał Czeredys.

On 14 June 2012, the General Meeting of Shareholders adopted 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 GM. 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 General Meeting of Shareholders, decided on the conversion of all existing shares of A, B and C series into D series shares, and on redemption of 75 157 shares.

2 Changes in the number of the issuer's shares or share options held by the members of the management or supervisory bodies

To the best knowledge of the Management Board, apart from information presented in the table below, as at 1 January 2016, 31 December 2016 and as at the day of publication of the report hereof, members of the Supervisory Board and the Management Board did not hold shares of ARCUS S.A. The table below presents the holding of shares by Members of the Supervisory Board and by the Company's Shareholders in Company's related entities as at 31 December 2016 and as at the day of the report hereof preparation.

Ownership of participating interests and shares in related entities of ARCUS S.A. by the Company's supervisors

Person	Entity	Number and nominal value of shares as at 31 December 2016	Number and nominal value of shares as at 28 April 2017
Marek Czeredys	ADD Polska Sp. z o.o. Sp. Komandytowa	PLN 10 thousand / limited partner contribution PLN 20 thousand	PLN 10 thousand / limited partner contribution PLN 20 thousand
Marek Czeredys	ZAKŁAD DOŚWIADCZALNY INSTYTUTU ZOOTECHNIKI MELENO Sp. z o.o.	6 088 shares with value of PLN 6 088 thousand / 52,03% of share capital	6 088 shares with value of PLN 6 088 thousand / 52,03% of share capital
Marek Czeredys	ADD Polska Sp. z o.o.	PLN 51,5 thousand / 100% of share capital	PLN 51,5 thousand / 100% of share capital
Marek Czeredys	T-matic Systems S.A.	322.650 shares with value of PLN 322 thousand / 25,3% of share capital	322.650 shares with value of PLN 322 thousand / 25,3% of share capital
Rafał Czeredys	Polmag Sp. z o.o.	13 200 shares with value of PLN 6 600 thousand/73,3% of share capital	13 200 shares with value of PLN 6 600 thousand/73,3% of share capital

Other members of the Supervisory Board or the Management Board of ARCUS S.A., according to the best knowledge of the Management Board, do not hold shares in Company's related entities. Mr. Marek Czeredys, Mr. Michał Czeredys and Mr. Rafał Czeredys are dominant entities in MMR Invest S.A., and thus in Arcus S.A.

3 According to the knowledge of the Company - any agreements which may potentially result in changes in the proportion of shares held by existing shareholders

As at 31 December 2016 as well as at the date of this report, the Company is not aware of any agreements which may result in future changes in the proportions of shares held by the existing shareholders of Arcus S.A.

4 Information on the acquisition of own shares

On 14 June 2012, the General Meeting of Shareholders adopted 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 GM. 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 General Meeting of Shareholders, decided on the conversion of all existing shares of A, B and C series into D series shares, and on redemption of 75 157 shares. In the reporting period the company did not hold any own shares.

5 Identification of major domestic and foreign investments and capital investments (securities, financial instruments, intangible assets and real estate)

In 2016, no capital investments were made apart from those presented in the report hereof.

6 Discussion of the results of the company in 2016, description and assessment of factors and unusual events affecting the operating result for the year

Profit and loss account	Year ended 31.12.2016	Year ended 31.12.2015
Sales revenues	97 792	141 328
Cost of sales	-74 892	-108 774
<u>Gross profit (loss) on sales</u>	<u>22 900</u>	<u>32 554</u>
Other operating income	1 167	594
Selling costs	-17 614	-21 183
General and administrative costs	-6 419	-6 081
Other operating costs	-3 009	-408
<u>Profit (loss) on operating activities</u>	<u>-2 975</u>	<u>5 476</u>
Result on financial activities	-1 094	-607
<u>Profit (loss) before tax</u>	<u>-4 069</u>	<u>4 869</u>
Income tax	728	-1 106
<u>Net profit (loss)</u>	<u>-3 341</u>	<u>3 763</u>

In 2016 ARCUS S.A reached the revenues of PLN 97.8 million, which marks a decrease of 30.8% compared to 2015 (PLN 141.3 million). In 2016, the profitability of the company by gross profit on sales increased from 21.3% in 2015 to 23.4% in 2016 (after consideration of presentation adjustment for 2015 in the amount of PLN 2 410 thousand related to the transfer of costs of materials consumption for the needs of services provided, from selling costs to own sales costs). The Company, in line with its earlier announcements, continues to focus on improving sales profitability. The increase of the margin for 2016 (compared to the previous year) was caused by several factors, including:

- increase in sales of goods and services through distribution channels with higher profitability,
- intensifying the effectiveness of marketing and commercial activities in order to attract new clients and contracts,
- elimination of contracts with low profitability and limitation of participation in tenders for which the risk of incurring penalties for non-implementation of performance requirements was disproportionately high in relation to the expected margin,
- concentration of activities in the sector of small and medium-sized enterprises,
- optimization of purchasing policy and inventory management.

The main reasons for a decrease in the financial performance may include:

- first and foremost, the creation of one-off impairment losses on assets including on inventories and receivables,
- foreign exchange losses of PLN / EUR.

In 2016, after verification of the existing sales strategy, ARCUS S.A. recognized as justified the further development of the Company in terms of current business operations, including sales of goods and services with consideration of one-off sales transactions, lease contracts and contracts for services associated with processing and workflow of documents. Furthermore, the strategy of developing local sales and service channels initiated in prior periods has enabled the Company to participate in national-scale contracts.

The turnover volume was negatively affected by two aspects. The company has noted a sharp decline in the ongoing purchase proceedings among public sector clients, which has always represented a major share in revenue. In the year 2016, the volume of consumables sales was affected by the change in pricing policy by our supplier, which in turn was the response to the increase in the amount of available, alternative consumables and to the illegal activities of some manufacturers offering counterfeit consumables. The company has already taken actions to educate clients about the benefits of using original materials, as well as legal action against companies that illegally use the intellectual property of our partner Kyocera. Thanks to the policy consisting in concentrating the activities of Direct Sales Departments on the SME sector, the company reported an increase in sales in this area, as compared to last year and forecasts further increases in the future.

The Company continues to implement the strategy in terms of specialization and segmentation of the market which involves offering of the specific assortment groups through individual companies being a part of ARCUS Group. The following shall be classified to main assortment groups:

- printers and MFP devices,
- inserters and sorters,
- IT software,
- IT equipment,
- measuring devices,
- other.

The first two of mentioned groups: Printers, MFP Devices and Inserters and Sorters are in the center of key operations of ARCUS S.A. – a Group's dominant company controlling other entities through shares held. The assortment classified to IT Software category is being offered by two companies: Arcus Systemy Informatyczne and DocuSoft and relates to ERP class software and document and information management systems. IT Equipment group covers mainly the commercial activities and activities in the field of implementation of IT technical infrastructure. Measuring Devices group relates to telemetry and telematics services provided by T-matic Systems. T-matic has, however, divided both products and has separated from its structure the telematics-related business and has entered into a merger with an organized part of Rikaline company. Both companies have established Geotik company, which will have much more competencies and a significantly larger portfolio of serviced clients. The last assortment group (other) is represented by brokering activities in the field of energy trade by Durau company.

From the point of view of separate financial statements, ARCUS S.A. may indicate two assortment groups as its specialization area:

- printers and MFP devices - Kyocera Document Solutions, own solutions and business partners' systems with software solutions supporting the management of this equipment,
- inserters and sorters – within the offer of Pitney Bowes and other non-related entities.

In 2016, Arcus S.A. executed successfully 2 sales targets

- increase in lease sales of printers and MFP devices including Kyocera Document Solutions,
- increase in lease sales of inserters and sorters, including Pitney Bowes.

In 2016, the balance sheet total amounted to PLN 111m and was by PLN 1m lower than as at the end of 2015 (change of less than 1% y/y). The largest value was represented by fixed assets with value of PLN 59.7m, accounting for 53.7% of the balance sheet total. The financing of ARCUS activities in 2016 was based, as in the previous year, primarily on equity and merchant credit. The amount of trade liabilities amounted to PLN 37.8m against an adequate amount of trade receivables equal to PLN 41.1m.

Employment

In 2016 the level of employment in the Company decreased by 5 persons i.e. by 3%.

	As at 31.12.2016	As at 31.12.2015
Employment	144	149

7 Material events having a significant impact on ARCUS S.A. operations and financial results during the reporting period or the influence of which is possible in the coming years

In 2016, there were no one-off events that would have had a significant impact on the results of this period, as well as might have significantly affected the results of subsequent years, however, the Management Board draws attention to the following issues which occurred in 2016:

- a growth is observed with respect to the interest of the markets in lease services due to reduction of the share of sales contracts. The market trend is positive for ARCUS S.A. as it allows the provision of packages of additional services and achieving greater revenues thanks to the experience gained by ARCUS S.A. over the years. However, it must be also noted that this trend leads to higher capitalintensiveness of business operations. As a consequence, Arcus S.A. with limited external financing being the result of pending dispute with EOP, could not take full advantage of the commercial potential in 2016,
- in terms of cooperation with Kyocera as a business partner, ARCUS S.A in the fiscal year (April 2016 – March 2017) maintained a status of the largest independent recipient in EMEA countries,
- extension of the Group, in which Arcus S.A. is a parent company, by the new entity - Geotik Sp. z o.o. operating in the market of car fleet management,
- in the period between the balance sheet date and the date of preparation of this annual report, there were no other events that could materially affect the assessment of the financial situation of Arcus S.A. as at 31.12.2016.

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8 Risk and threat factors related to the company's business activities

The activities of the Issuer are subject to many factors, both external and internal, which may have a significant impact on the financial position. Among the most important risk factors, the following shall be listed:

- risk associated with general macroeconomic situation resulting from the fact that the demand for products offered by the Company is associated with economic growth, which affects the Company's clients' willingness to invest in offered products and services, which consequently may have a negative impact on generated revenues and profits,
- risk associated with technological changes in the sector and the development of new technologies, and thus relatively short lifecycle of IT solutions, equipment and technology and associated need for constant monitoring of technological changes,
- risk related to performing the business operations in a market niche associated with correspondence and document lifecycle management and risk of potential competitors which may negatively affect the financial results,
- risk associated with dependence on suppliers arising from the fact that part of the system solutions offered by the Issuer are based on the technological platforms supplied by third parties, and thus the sales of goods from external suppliers is the core source of Group's revenues. The termination of agreement by any of the main suppliers or any changes in the terms of supplies execution may therefore result in a significant decline in sales and financial results of the Company,
- risk associated with dependence on clients resulting from the fact that the Company sells part of offered solutions to a relatively narrow group of clients whose activities are related to the processing of significant

quantities of documents or correspondence. Therefore, there is a risk that the loss of some clients from the group of the largest recipients of the Company, may adversely affect the level of sales revenues and financial performance,

- exchange rate risk associated with volatility on global financial markets, resulting in the fact that the Company, as an importer in the EUR and USD zones, is exposed to potentially higher than projected costs of purchase of goods (in case of PLN depreciation) or lower revenues denominated in foreign currencies (in case of PLN appreciation). Particularly in the case of contracts executed in public sector prices are denominated in the Polish currency and are not subject to renegotiation in terms of the prices,
- legislative and legal risks associated with unstable and unviable regulations on public procurement, giving the ordering party a dominant position against the supplier/contractor, which allows the ordering party to include unilateral and unfavorable terms and conditions in agreements and to take hostile action against suppliers/contractors, including calculation of disproportionately high amount of penalties.

9 Risk factors associated with shares

D-Series Shares (formerly A, B and C) are admitted to trading on a regulated market. Admission required the fulfillment of a number of formal requirements specified in the provisions of the Warsaw Stock Exchange Rules (WSE Rules) and the National Depository for Securities Rules. The relatively low average turnover may entail the liquidity risk.

10 Information on key products, goods and services

ARCUS S.A. offers comprehensive document management and correspondence solutions for companies and public institutions that include hardware, software, and services designed to optimize workflow and document management processes. The Company is intensively developing a group of new system solutions related to widely understood – information management, including documents in electronic form.

In 2016 the Company offered solutions from two main areas:

- document lifecycle management systems (office solutions) – sales of solutions, equipment, software and services;
- correspondence management systems (mailstream solutions) addressed to postal and dispatching centers.

System solutions offered by the Company, both in terms of document lifecycle management and the mailstream management, are based on professional technology platforms. These solutions can be adapted to the specific operations of both small and medium-sized enterprises, large companies and corporations, and institutions - both at the level of Offices of cities and municipalities, and multi-branch central offices employing several thousand workers.

The equipment forming the technology platform is obtained by the Company from renowned global partners and covers: MFP devices and printers from Kyocera Document Solutions, devices for correspondence processing (mail inserters, sorters, franking machines, electronic weighing scales, folders, address printers, envelope openers) from Pitney Bowes, as well as other office equipment such as IT and ICT equipment. Both the scope of the portfolio and the trading volume ranks ARCUS S.A. among the leaders on the Polish market. In 2016, the main revenue-generating areas were the document management systems, the sale and lease of copying-printing equipment (under the name of ARCUS Kyocera MDS) and devices for mail management.

The second area was the services segment, including maintenance of equipment, implementation of ICT systems etc. The activities within telemetry segment were transferred to subsidiaries.

Segmentation of ARCUS S.A. operations in 2016

	IT Segment	Telematics segment	Telemetry segment	Other services segment	Total
<u>1 January 2016 - 31 December 2016</u>					
Revenues	82 908	170		14 713	97 791
Sales to external clients	82 908	170		14 713	97 791
Segment's total 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

In 2016, the Company generated the sales revenues on domestic market and partially on foreign market. Export in 2016 accounted for 2% of the total revenues. In geographical terms sales in Poland are distributed in proportion to the size of the population and the level of GDP generated in particular voivodships.

Information on the Company's branches

ARCUS S.A. has its headquarters in Warsaw and 7 regional branches providing commercial and maintenance services, located in the following cities:

- Gdańsk,
- Bydgoszcz,
- Poznań,
- Łódź,
- Wrocław,
- Katowice,
- Lublin.

Location of ARCUS S.A. branches as at 31.12.2016


11 Suppliers and clients of the Company

In 2016, similarly as in the previous year, Kyocera international corporation was the Company's supplier. Kyocera is a Japanese manufacturer of document management systems, including laser printers and MFPs (multifunction devices). Its share in commercial transactions accounted for approx. 70% of the total purchase transactions executed by the Company in 2016. In terms of cooperation with Kyocera as a business partner, ARCUS S.A in the fiscal year (April 2016 – March 2017) maintained a status of the largest independent recipient in EMEA countries.

12 Significant agreements

On 1 August 2016, the Company signed an agreement with mBank S.A., being a continuation of the contract concluded in 2010 for the delivery, implementation and maintenance of an integrated print, copy, scan and fax platform. The subject of the agreement is the supervision of Kyocera devices used by mBank, including servicing and delivery of consumables, in more than 330 locations.

The value of the contract is PLN 5,500,000; the contract period is until 31 December 2017, whereby both parties allow extension of cooperation, as well as increasing the value of services provided. On 30 November 2016 the Company signed an agreement with Egida IT Solutions Sp. z o.o. for the sale and delivery of Kyocera Document Solutions equipment and devices. The contract was executed in the reporting period; its value amounted to PLN 11 214 555.00 net.

Thanks to an advanced technology team, own reseller distribution network and service network, Arcus Group offers one of the most advanced and comprehensive document management systems (ARCUS Kyocera MDS). Offered solutions covering the after-sales service and the maintenance services performed at a very high level, as well as the scalability of systems allow to service both corporate clients, central administration, as well as companies from the SME sector. In 2016, the Group executed the transactions (of value lower than in case of significant agreements) with among others: Kruk S.A., Poczta Polska S.A., City Council of Lublin, Voivodeship Police Department, Integrated Solutions.

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13 Information about the major achievements in research and development

Arcus runs a program of research and development (R&D) in the framework of Arcus Group's operations covering all Group's entities. In 2016 the most important projects included:

- development of own solution in the field of MicroEDI software,
- development of CRM system based on Microsoft Dynamics AX,
- further development of ERP class system based on Microsoft Dynamics AX and cloud computing,
- further development of Vario system (workflow and optimization of decision-making processes),
- development by DocuSoft company of own intelligent OCR system supporting sales activities in the field of printers, MFPs and IT software.

14 Information on environmental issues

In the reporting period, the Company's operations did not have a negative impact on the environment. Nevertheless, issues related to environmental protection, utilization and use of consumables and energy efficiency of equipment and systems offered by the group is an important element of the company's philosophy. Together with its strategic partner - Kyocera Document Solutions, Arcus S.A. participates in a global environmental liability program. Detailed information on issues related to environmental liability is presented in a separate report published by Arcus S.A.

15 Information on any organisational or capital links between the Issuer and other entities

In 2016, an entity directly related (controlled) through shares held was T-matic Systems S.A. in which ARCUS S.A. holds 65.6% of the total number of votes at the GM. ARCUS S.A. together with T-matic Systems S.A. and DocuSoft Sp. z o.o. acquired in 2011, forms ARCUS Group which in December 2013 was extended by another entity – Durau Sp. z o.o. which goal is to build a nationwide purchasing group in the energy, fuel and business services sectors.

On 25 April 2014, ARCUS S.A. concluded an Investment Agreement as a result of which undertook to acquire for the total amount of PLN 7.66 million a controlling share in Syntea Business Solutions. In accordance with the terms of mentioned Agreement, on 27 June 2014 ARCUS S.A. acquired newly issued shares of Syntea Business Solutions of issue value amounting to PLN 5.1 million in exchange for an in-kind contribution in the form of an organized part of an enterprise and currently holds 30.2% share in the capital and in the total number of votes at the GM of this company.

Furthermore, on 1 July 2014 conditional agreements regarding the acquisition of the shares of new issue in exchange for cash in the amount of PLN 528 thousand and the repurchase of shares from existing shareholders, were finalized. Due to the above, as of 1 July 2014, ARCUS S.A. is a controlling shareholder in ASI (53% share in capital and votes). Arcus Kazakhstan Sp. z o.o. was established on 8 September 2014 under the laws of the Republic of Kazakhstan by a specialized entity (law firm). On 8 October 2014, Arcus S.A. repurchased 100% of shares in this company of value amounting to KZT 200. Arcus Kazakhstan Sp. z o.o. does not perform business operations.

In 2016, the following companies were also the Issuer's related entities:

- LMT Sp. z o.o. (Limited Liability Company) – entity controlled by Durau Sp. z o.o. (subject to full consolidation);
- Satore Sp. z o.o. (Limited Liability Company) – affiliate of Arcus Systemy Informatyczne Sp. z o.o. (in the reporting period, subject entity did not perform business operations);
- Geotik Sp. z o.o. (Limited Liability Company) – subsidiary of T-matic Systems S.A. (established during the reporting period, subject to full consolidation);
- ADD Polska Sp. z o. o. Sp. k. (Limited Liability Company; Limited Partnership) – in the reporting period Arcus S.A. and T-matic Systems S.A. were the partners in the limited partnership;
- ADD Polska Sp. z o. o. (Limited Liability Company) – in the reporting period Arcus S.A. and T-matic Systems S.A. were the shareholders in the company;
- Polmag - in the reporting period Arcus S.A. and DocuSoft Sp. z o.o. were the majority shareholders in the company;
- Zakład Doświadczalny Instytutu Zootechniki Sp. z o.o. (Limited Liability Company) - in the reporting period Arcus S.A. and T-matic Systems S.A. were the majority shareholders in the company.

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16 Information on significant transactions concluded by the issuer or its subsidiaries on conditions other than arm's length (market conditions)

In the period from 1 January 2016 to 31 December 2016, ARCUS Group's companies did not execute with aforementioned related entities any transactions which total value in the period from the beginning of the financial year exceeded the equivalent of EUR 500 000.

None of ARCUS Group's companies entered into transactions with related entities on conditions other than arm's length.

17 Information on any contracted loans, any signed loan agreements as well as on received or granted sureties or guarantees

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. The Real estate being the property of Mrs. Anna Czeredys and Mr. Marek additionally serves as collateral for the overdraft facility.

Except for the abovementioned, in 2016 the Company was not granted any other significant sureties, guarantees or loans apart from the standard insurance guarantees and performance bonds, which are connected with the tendering processes.

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.

In 2016, apart from surety for a subsidiary – Arcus Systemy Informatyczne in the amount of PLN 0,245 million for the purposes of a performance bond, did not grant any other sureties or guarantees. The Company granted to its subsidiaries and related entities loans in the total amount of PLN 1,08 million.

18 Explanation of any differences between the financial results disclosed in the annual report and the financial forecasts published earlier for the year 2016

The Management Board of ARCUS S.A. did not disclose financial forecasts of the Company for the year 2016.

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19 Assessment of the company's financial resources management

At the end of 2016, the value of current assets amounted to PLN 51,5 million, while short-term liabilities amounted to PLN 40,7 million (long-term liabilities – PLN 6,9 million). The high predominance of current assets over the total amount of liabilities of the Company, ensures the possibility to settle both long-term and short-term liabilities. The following table shows the liquidity ratios, profitability ratios and the amount of working capital at the end of 2016-2015.

Liquidity ratios, profitability ratios and the amount of working capital at the end of 2016-2015

	2016	2015
Current liquidity ratio	1,3	2,0
Quick ratio	1,0	1,6
Net working capital (PLN thousand)	10 771	37 115
Return on Assets (ROA, %)	-3,0%	3,4%
Return on equity (ROE, %)	-5,3%	5,6%
Return on sales (ROS,%)	-3,4%	2,6%

In 2016, all liquidity ratios and working capital ratios remained at acceptable levels.

20 Information on financial instruments

Information on financial instruments in terms of price risk, credit risk, material cash flow disruptions and liquidity disruptions to which the Company is exposed as well as information on the objectives and methods of financial risk management adopted by the Company. In the reporting period, neither credit nor loan agreements were terminated.

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. Within its ongoing operations, ARCUS S.A. did not use the forward transactions (except for one open transaction at the balance sheet date) and expert advice in terms of projected exchange rates and a policy regarding the purchase of foreign currencies. All transactions were strictly associated with import activities and were aimed at securing the purchase of EUR currency. The Management Board and CFO of Arcus S.A. executed the ongoing supervision over the implementation of aforementioned transactions. In 2016, the Company did not issue derivative instruments.

Interest rate risk

ARCUS S.A. is a party to loan and lease agreements based on variable WIBOR rate increased by margin. 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.

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.

Liquidity risk

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.

21 Changes in the key principles of managing the Issuer's business

In 2016, the Supervisory Board recognizing the importance of active risk management, including legal and financial risk management, appointed subsequent members of the Audit Committee. Furthermore, in 2016, the Supervisory Board of the Company appointed a Management Board member responsible for legal and corporate affairs.

22 Assessment of the feasibility of planned investments

In the subsequent periods, the Management Board intends to focus on the development of the Company's core business, including the development of its existing business segments. At present, resources are focused on strengthening market position, developing constant added value and improving financial performance.

23 Description of internal and external factors material to the growth of the Issuer's business and description of development prospects for the Issuer's business with consideration of the market strategy

The economic situation in Poland, GDP growth, the share of EU funds in the financing of public infrastructure and institutions as well as the level of gross debt shall be the dominant external factors influencing the Company's development in the near future. The attention shall also be given to EU regulations and related national regulations imposing on the electricity, gas and other sectors, the necessity to modernize and upgrade the infrastructure. The company also expects that thanks to the exceptional quality and efficiency of Kyocera equipment offered, customers will increasingly and comprehensively recognize all the costs associated with printing, copying and workflow, and not only the conditions of initial purchase. Increased efficiency of printing and copying processes translates into lower unit cost, which is recognized by increasing number of institutions and business customers changing their model of purchase and maintenance of such devices. In 2016, the company generated most of the revenue from the sales contracts, but the attention should be given to a visible increase in the number and value of long-term contracts based on lease of equipment and settlements under fixed and variable charges associated with the number of printouts. In the coming years, integration services of ERP and ICT systems as well as services in the field of telematics associated with fleet monitoring and telemetry in terms of the development of remote metering of energy, gas and water supply networks, shall also have a significant share in the revenues of the Company.

24 Description of events significantly affecting the issuer's operations that occurred during the financial year, after the balance sheet date and until the date of the financial statement preparation

In 2016, there were no events which would materially affect the results of this period and could significantly influence the results of the following years, but the Management Board draws attention to the description of the dispute with Energa-Operator S.A. (detailed description is presented in paragraph 29).

25 Current and expected financial situation of the Issuer

Current and expected financial situation of ARCUS S.A. has been described in previous paragraphs of the report hereof.

26 Agreements concluded between the Issuer and its managing persons, which provide for compensation in the event of a given person resignation or dismissal from the position held without a good reason or in the event where the dismissal is a result of the Company's merger and acquisition

The company is not a party to agreements with its managing persons, which provide for compensation in the event of their resignation or dismissal from the position held without a good reason or in the event where their dismissal is a result of the Company's merger and acquisition.

27 Value of remuneration, bonuses or benefits payable to company's managing and supervisory persons

In 2016, the following remuneration was paid to the managing and supervising persons for the performance of their functions.

Remuneration	Function performed in 2016	Remuneration (PLN thousand)
Marek Czeredys	Chairman of the Supervisory Board	243
Tomasz Konewka	Member of the Supervisory Board	39
Leszek Lechowski	Member of the Supervisory Board	27
Krzysztof Przybył	Member of the Supervisory Board	27
Bogusław Wasilewko	Member of the Supervisory Board	27
Michał Czeredys	President of the Management Board	444
Michał Łotoszyński	Vice President of the Management Board / Member of the Supervisory	243
Rafał Czeredys	Member of the Management Board	228

In 2016 managing and supervisory persons were not paid any bonuses or benefits resulting from share-based incentive or bonus schemes, including schemes based on bonds with pre-emptive rights, convertible bonds or subscription warrants.

28 Information on the supervision of employee incentive programs

The Company did not establish programs referred to in this point.

29 Proceedings pending before the court, a respective body for arbitration proceedings or a public administration body

1) Dispute with Energa-Operator S.A.

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.

2) Dispute with Centre of Health Information Systems

On 18 May 2016, the consortium of Arcus S.A. (a leader) and DecSoft S.A. (a member) received from the Centre of Health Information Systems a request for payment of the amount of PLN 12,86 million in connection of the Agreement of 1 July 2013 (current report no 11/2016). The subject matter of the Agreement concluded in 2013 was

delivery, installation and configuration of technical-system infrastructure for the needs of subsystems implemented under the project: 'Electronic Platform for Collection, Analysis and Dissemination of Digital Data on Medical Events'. Value of the project amounted to PLN 138 million. In the Issuer's opinion, mentioned request for payment is a negotiation element used by the Ordering Party in response to claims at the total value of PLN 4,6 million made by the Consortium. Furthermore, the request for payment does not include any justification and does not provide for a legal basis of the claim. The services under the Agreement of 1 July 2013 (being the subject of claims made), within the course of cooperation between the Consortium and the Ordering Party, have been reported to and settled by the Ordering Party on the ongoing basis. In addition, the scope of claims refers to works performed by a consortium's leader – DecSoft S.A. and in accordance with the consortium agreement – the responsibility lies with DecSoft S.A. Taking above into consideration, as at balance sheet day no provisions were established by the Company in connection with the subject dispute. Within the court proceedings initiated by the Consortium, on the hearing on 8 November 2016, DecSoft S.A. and Arcus S.A. received from the Centre of Health Information Systems a counter-claim for the total amount of PLN 12 860 098.95. The Management Board remains of the opinion that a counter-claim is only a negotiating element used by the Ordering Party and is a response to claims previously lodged by the Consortium. Arcus S.A. is not aware of any circumstances which could form the basis of the counter-claim.

30 Information on the agreement and remuneration of an entity authorised to audit the financial statement of the Company

On the basis of the Supervisory Board's Resolution of 20 July 2016, TPA Horwath Horodko Audit Sp. z o.o. was selected to audit and review ARCUS S.A. separate and consolidated financial statements. The total remuneration arising from the agreement with TPA Sp. z o.o. sp. k. (previously: TPA Horwath Horodko Audit Sp. z o.o.) concluded on 20 July 2016 due for the audit and review of the separate financial statement of ARCUS S.A. for the year 2016 amounts to PLN 42.9 thousand. The total remuneration arising from the agreement with TPA Sp. z o.o. sp. k. (previously TPA Horwath Horodko Audit Sp. z o.o.) concluded on 20 July 2016 due for the audit and review of the consolidated financial statement of ARCUS S.A. Group for the year 2016 amounts to PLN 23.4 thousand. On the basis of the Supervisory Board's Resolution of 19 June 2015, TPA Horwath Horodko Audit Sp. z o.o. was selected to audit and review ARCUS S.A. company's separate and consolidated financial statements. The total remuneration arising from the agreement with TPA Horwath Horodko Audit Sp. z o.o. concluded on 7 July 2015 due for the audit and review of the separate financial statement of ARCUS S.A. for the year 2015 amounted to PLN 38.5 thousand. The total remuneration arising from the agreement with TPA Horwath Horodko Audit Sp. z o.o. concluded on 7 July 2015 due for the audit and review of the consolidated financial statement of ARCUS S.A. Group for the year 2015 amounted to PLN 21.3 thousand.

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31 Statement on compliance with corporate governance principles in 2016

Statement on compliance with corporate governance principles in 2016 is enclosed to the report hereof.

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