ARCUS Spółka Akcyjna

www.arcus.pl

STATEMENT ON COMPLIANCE WITH CORPORATE GOVERNANCE RULES IN 2016

Annex to the Report of the Management Board on business activities of the Company in 2016

Warsaw, 28 April 2017

1 A set of corporate governance principles that the issuer could apply voluntarily and an indication of where the text of these principles is publicly available

The Issuer has applied the corporate governance principles introduced by the Resolution of the Warsaw Stock Exchange Supervisory Board of 13 October 2015 "Best Practice for GPW Listed Companies 2016" https://static.gpw.pl/pub/files/PDF/RG/DPSN2016 GPW.pdf.

The report on the compliance by Arcus S.A. with Recommendations and Principles set forth in currently binding document - "Best Practice for GPW Listed Companies", is available on the Company's website at http://www.arcus.pl/sites/default/files/ckeditor/imce/gpw_dobre_praktyki_arcus.pdf.

2 Indication of the extent to which the Issuer derogate from the application of principles set forth in the corporate governance code referred to in pt. 1, indication of these principles and explanation of the reasons for this derogation

The Management Board of the Company declares that in 2016 the Company complied with the corporate governance principles set out in the document "Best Practice for GPW Listed Companies 2016", except for the principles listed below.

1. I.Z.1.15. The company implements a diversity policy applicable to the company's governing bodies and key managers, however this policy is not institutionalized. The diversity policy is implemented by diversifying age, gender, type of education or professional experience. Nevertheless, an important objective of the Company is to create a work environment in which employees can develop their skills, are treated with due respect, and in which the objectives of the Company and its strategy are implemented. In accordance with the best knowledge of the Company, the remaining provisions of the Corporate Governance code, including those applicable to supervised institutions and issued by the Financial Supervision Authority, are complied with by the Company to the full extent.
2. I.Z.1.16. The Company does not provide for the possibility to participate in the General Meeting, using electronic means of communication or real-time bilateral communication. The Company also does not foresee an audio or video recording of a general meeting and publishing it on its website. In the opinion of the Company, the communication associated with General Meetings implemented so far by publication of current reports and relevant materials on the website of the Company, ensures the transparency of operations of the Company as well as protects the rights of the shareholders.
3. I.Z.1.20. The Company does not provide for the possibility to participate in the General Meeting, using electronic means of communication or real-time bilateral communication. The Company also does not foresee an audio or video recording of a general meeting and publishing it on its website. In the opinion of the Company, the communication associated with General Meetings implemented so far by publication of current reports and relevant materials on the website of the Company, ensures the transparency of operations of the Company as well as protects the rights of the shareholders.
4. II.Z.10.4 The Company has no formal policy related to charity and sponsorship activities. The Company provides the financial or in-kind support to interesting projects and ideas. The sponsorship activity is focused on the development of youths through sports activities. As far as possible, the Company also helps people touched by unfortunate fate. The Company does not exclude that in the future, this rule will be fully implemented.
5. III.Z.3 The functions of an internal audit were not organizationally separated in the Company.
6. III.Z.4 The functions of an internal audit were not organizationally separated in the Company.
7. VI.Z.4 In the report on business activities, the Company discloses the information on the remuneration of members of the Management Board as required by law. Currently, however, the Company does not disclose a report on the remuneration policy applied to the extent specified in the subject principle. The Company believes that the information contained in the above document would be an excessive disclosure of the data to the industry competition.

3 Description of the main features of the Issuer's internal control and risk management systems in relation to the process of preparing financial statements and consolidated financial statements

The financial statements are prepared by the Finance and Accounting Department of the Company. This Department cooperates with other organizational units, which provide information (not ensuing not directly from the accounting data) necessary for the preparation of financial statements. Financial statements are prepared and signed by Chief Accountant and Chief Financial Officer. The Chief Financial Officer is directly responsible for the organization and operation of the Finance and Accounting Department. The data necessary for preparing financial statements are regularly reviewed by the responsible persons and by the Management Board of ARCUS S.A. Persons involved in the process of preparation and verification of financial statements have many years' experience and necessary knowledge. All members of the Management Board of the Company verify the progress of the works and the content of the financial statement on a regular basis. The Members of the Management Board regularly submit their comments as to the additional issues to be addressed in the statements. The prepared financial statements together with the report of the Management Board on the business activities of the Company are submitted to the Certified Auditor. In the course of the examination of the financial statement, the auditor compares its content with accounting books and internal accounting procedures on an on-going basis. During the meetings with key employees and Members of the Management Board, the Auditor discusses and analyzes the correctness of the presentation of particular issues in the financial statement and the report of Management Board on business activities of the Company. After applying the final adjustments addressing all the comments of the Auditor, the persons preparing the financial statement and managing persons, the final version of the financial statement is signed by these persons. In the opinion of the Management Board, the above-described internal control and risk management systems applied for the preparation of financial statements and consolidated financial statements are sufficient and take into account both the specific nature of the business and the size of the Company. In the recent practice of drawing up financial statements, no material risks have been identified. With the development of the Company and the Capital Group, the system will be adapted to the growing requirements.

4 Indication of shareholders holding, directly or indirectly significant blocks of shares with an indication of the number of shares held by these entities, their share in the capital, the number of votes attached to such shares and their share in the total number of votes at the General Meeting

Shareholding structure of ARCUS S.A. as at 31 December 2016.

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

* Mr. Marek Czeredys, Mr. Michał Czeredys and Mr. Rafał Czeredys are a dominant entity in MMR Invest S.A.

5 Identification of holders of any securities conferring special control powers with respect to the Issuer, including a description of such powers

ARCUS S.A. did not issue any securities conferring special control powers with respect to the Company.

6 Restrictions on voting rights, such as limitations of the voting rights of holders of a given percentage or number of votes, time limitations on exercising voting rights, or provisions under which, with the company's cooperation, the equity rights attached to securities are separated from the holding of securities

In 2016, there were no restrictions in the Company as to the voting rights as well as there were no provisions under which, with the company's cooperation, the equity rights attached to securities are separated from the holding of securities.

7 Restrictions on the transfer of ownership rights to the Issuer securities

According to the best knowledge, as at 31 December 2016 and at the date of publication of this report, there are no restrictions in the Company as to the transfer of ownership rights to securities of the Issuer other than those resulting from the binding laws and regulations of the WSE.

8 Rules governing the appointment and dismissal of managing persons and such persons' powers, including in particular the power to make decisions as to issue or buy-back of shares

In accordance with ARCUS S.A. Articles of Association, the Company's Management Board shall be composed of one to five members. Members of the Management Board are appointed by the Supervisory Board for a common, one to three-year term of office. The first Management Board's term of office is one year. The Supervisory Board determines the number of members of the Management Board for the given term of office, the duration of term of office, and appoints the President and Vice-President of the Management Board. The mandate of a member of the Management Board appointed before the end of the term of office of the Management Board expires simultaneously with the mandates of other members of the Board.

9 Rules governing amendments to the Issuer's Articles of Association

Changes to the Company's Articles of Association are made by the General Meeting of Shareholders by a majority of three-fourths of the votes.

10 Manner of operation of the General Meeting, its basic powers and description of the shareholders' rights along with the procedure for their exercise, in particular the rules stipulated in the rules of procedure for the General Meeting, except where prescribed directly by law

The General Meeting is convened by the Management Board. The Ordinary General Meeting is held within 6 months of the end of each financial year. The Extraordinary General Meeting is convened by the Management Board on its own initiative, at the written request of the Supervisory Board, or a written request of a shareholder or shareholders representing at least 1/20 of the share capital. The Extraordinary General Meeting should be convened within 2 weeks of the date of the request. The request to convene a Meeting should specify the matters to be discussed and contain the justification. The Supervisory Board has the right to convene an Ordinary General Meeting of Shareholders if the Management Board fails to convene it within the time limit specified in the Articles of Association. The Supervisory Board has the right to convene an Extraordinary General Meeting if it deems it appropriate and the Management Board fails to convene the General Meeting within 2 weeks of the request being submitted by the Supervisory Board. The shareholder or shareholders representing at least ½ of the share capital may request that the Extraordinary General Meeting be convened and certain matters be placed on its agenda. Such request must be submitted in writing to the Management Board no later than one month before the proposed date of the General Meeting. Each share gives the right to one vote at the General Meeting. Shareholders may participate in the General Meeting and exercise voting rights in person or by their representatives. The power of attorney to participate in the General Meeting and to exercise the voting right is granted in writing under the pain of nullity. The General Meeting adopts all resolutions by an absolute majority of votes, unless the Articles of Association of the Company or the applicable laws provide for stricter requirements for adoption of a given resolution. Votes "for", "against" and "abstentions" are considered votes cast. The powers of the General Meeting include:

- consideration and approval of the Management Board's report on the Company's business activities and financial statements for previous financial year; granting discharge to the members of the Company's governing bodies for the performance of their duties;
- any amendments to the Articles of Association, including the increase and decrease of the share capital and the change of the subject of the Company;
- decisions on claims for redress of damage caused upon formation of the Company or in the course of management or supervision;
- granting a consent to disposal or tenancy of the enterprise or its organised part and a creation of a limited right in rem over them;
- issue of convertible bonds or bonds with the right of priority;
- merger and transformation of the Company;
- dissolution and liquidation of the Company;
- other matters which, according to the Articles of Association of the Company or the applicable laws are within the competence of the General Meeting.

11 Composition and activities of the Issuer's management, supervisory and administrative bodies or of their committees; changes in their composition during the last financial year

Management Board

In accordance with ARCUS S.A. Articles of Association, the Company's Management Board shall be composed of one to five members. Members of the Management Board are appointed by the Supervisory Board for a common, one to three-year term of office. The first Management Board's term of office is one year. The Supervisory Board determines the number of members of the Management Board for the given term of office, the duration of term of office, and appoints the President and Vice-President of the Management Board. The mandate of a member of the Management Board appointed before the end of the term of office of the Management Board expires simultaneously with the mandates of other members of the Board. The powers of the Members of the Management Board are governed by generally applicable laws, including the Commercial Companies Code and the Company's Articles of Association. Detailed procedural issues are contained in the Rules of the Management Board adopted the by a resolution of the Supervisory Board of 17 March 2016.

In accordance with ARCUS S.A. Articles of Association, the Management Board manages the affairs of the Company and represents the Company.

Members of the Management Board perform their duties in person, in accordance with the function specified in the resolutions adopted by the Supervisory Board on the appointment of members of the Management Board. The specific duties of members of the Management Board include:

- development and implementation of the strategy and execution of the main objectives of the Company's operations, ensuring the effectiveness of the Company's management system and management of the Company's affairs in accordance with the applicable laws and good practice.

Within distribution of powers:

- President of the Management Board – Chief Executive Officer –manages the entire work of the Company's Management Board and supervises the commercial and service areas, product development, human resources management as well as marketing and PR;
- Vice-President of the Management Board - Chief Financial Officer - is responsible for the area of finance and accounting, investor relations, logistics and storage facility;
- Member of the Management Board - Legal and Corporate Director - is responsible for the administration and legal area.

The Management Board adopts the resolutions by a simple majority of votes. In case of equal number of votes the vote of the President of the Management Board shall prevail. The President of the Management Board, two members of the Management Board acting jointly or one member of the Management Board acting jointly with a proxy shall be authorised to make statements and to incur liabilities on behalf of the Company. The Management Board of ARCUS S.A. may dispose of the law and incur liabilities on behalf of the Company up to the amount of PLN 5,000,000. The consent of the Supervisory Board of the Company is required to dispose of the law and incur liabilities exceeding the above amount. The Management Board of the Company does not have the power to decide on the issue or redemption of own shares. According to the Rules of ARCUS S.A. Management Board, ordinary management matters arising from the Company's on-going operations are carried out by individual members of the Management Board, in line with distribution of powers and tasks within the Company's Management Board. Matters in excess of the ordinary management as well as issues with regard to which at least one member of the Management Board requests to be resolved by the Management Board, are resolved by way of a resolution.

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

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

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

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

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

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

In connection with his candidacy to the Supervisory Board, on 31 August 2016, Mr. Michał Łotoszyński resigned from the position of Vice-President of the Management Board.

Supervisory Board

In accordance with Articles of Association of ARCUS S.A., the Company's Supervisory Board shall be composed of 5 to 10 members. The Supervisory Board exercises permanent supervision over the activities of the Company in all areas of its business. In particular, the powers of the Supervisory Board include:

- appointment and dismissal of members of the Management Board;
- granting a consent to the establishment and liquidation of the Company's branches;
- granting a consent to the acquisition, purchase, disposal and encumbrance of equity interests in other enterprises;
- granting a consent to the Management Board to disposal of the law and incurring liabilities which value exceeds the amount of PLN 5,000,000;
- granting a consent to the purchase and disposal of real property, perpetual usufruct or share in real property;
- selection, at the request of the Management Board, of a certified auditor for the audit of an annual financial statement of the Company.

The Supervisory Board annually submits to the General Meeting a brief assessment of the Company's situation. Members of the Supervisory Board receive the remuneration for performing their duties. The amount of remuneration of members of the Supervisory Board is determined by the General Meeting.

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.

Mr. Michał Łotoszyński was appointed Member of the Supervisory Board on the basis of the Resolution of the Extraordinary General Meeting of Shareholders held on 31 August 2016.

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.

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 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.

Certified Auditor

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. By the resolution of the Supervisory Board of 20 July 2016, TPA-Horwath Horodko Audit Sp. z o.o. was selected to examine and review the separate and consolidated financial statements of ARCUS S.A.

Information on the participation of women and men in the Management and Supervisory Boards of Arcus S.A.

In the period between 1 January 2012 and the date of publication of the financial statement hereof, the participation of men in the composition of the Company’s Management Board was 100%. In the period from 14 June 2012 to 23 June 2015 one woman performed her function in the Supervisory Board, and thus the participation of women in the composition of the Supervisory Board was 20% against 80% of men.

Warsaw, 28 April 2017

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