

Date of issue: 30 May 2018

Current report no 7/2018

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

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

Content of the report:

In addition to current report No 6/2018 of 30 May 2018, the Management Board of ARCUS S.A. ('the Company') hereby discloses the content of ARCUS S.A. Supervisory Board's reports which will be discussed at the Ordinary General Meeting of Shareholders convened for 27 June 2018.

SIGNATURES OF PERSONS REPRESENTING THE COMPANY:

Rafał Czeredys – Member of the Management Board

Supervisory Board's assessment of the position of ARCUS S.A. in 2017

1. Supervisory Board's assessment of the position of ARCUS S.A. in 2017

The Supervisory Board of ARCUS S.A. with its registered office in Warsaw (**the Company**), in accordance with the corporate governance rules set forth in the document: 'Best Practice of WSE Listed Companies', hereby discloses the report on the assessment of the position of the Company in 2017 carried out by the Company's Supervisory Board.

In the financial year 2017, the Supervisory Board of ARCUS S.A. monitored the activities of the Company on an ongoing basis and performed periodic reviews and evaluations of the Company's strategy implementation, including in the following areas:

- implementation of budget assumptions and the Company's development strategy,
- assessment of the internal control system and the risk management system,
- significant legal and operational risks,
- the liquidity of the Company, in particular in the scope of providing sources of financing of current operating activities and development projects,
- assessment of human resources in the context of ensuring the continuity of the Company's business, development opportunities and cost structure.

The Supervisory Board of ARCUS S.A., acting pursuant to Art. 382.3 read with Art. 395.2.1 of the Commercial Companies Code, has reviewed the documents prepared by the Management Board of the Company, including the Management Board's report on ARCUS S.A. activities in 2017 and the separate financial statement of ARCUS S.A. for the period from 1 January 2017 to 31 December 2017.

On the basis of the financial statements presented by the Management Board, the report of the independent auditor on the audit of the financial statement, the Supervisory Board presents below the assessment of ARCUS S.A. position in 2017.

In 2017, the Company generated the sales revenues in the amount of PLN 113.9 million which marked an increase of PLN 16.1 million (16.5%) as compared to the corresponding period last year. Gross profit on sales amounted to PLN 31.2 million which represents an increase by PLN 7.3 million (31.9%) comparing to preceding year. The achieved gross margin on sales in 2017 amounted to 26.5% marking a growth of 3 pp compared to previous year. In 2017, the Company reported a positive financial result on operations in the amount of PLN 4.2 million, positive gross financial result in the amount of PLN 5.5 million and a net profit of PLN 4.1 million. Compared to 2016, attention should be paid to a significant improvement in results at all levels.

In terms of balance sheet data, the balance sheet total increased by PLN 11.2 million (10%). On the assets side, a slight decrease in fixed assets by PLN 1.3 million (1.2%) was recorded. Current assets increased by PLN 12.6 million (11.4%) as a result of an increase in receivables by PLN 12.6 million (22.21%) resulting from sales transactions made at the end of 2017.

On the liabilities side, an increase in equity by PLN 4.1 million (6.4%) was recorded which primarily arises from the net profit recognized in 2017. There has been an increase in long-term liabilities by the amount of PLN 13.7 million and a decrease in short-term trade and other liabilities from the level of PLN 37.8 million in 2016 to PLN 33.3 million in 2017, which marked a decrease by PLN 4.6 million (12.2%). The short-term debt decreased by PLN 2.3 million (from PLN 2.7 million in 2016 to PLN 0.4 million in 2017).

After reviewing the Company's financial statement and the Management Board's report on the Company's activities in 2017, the Supervisory Board of the Company states that the assumptions for the year 2017 have been implemented. The Company's situation improved, which was caused by the Company's development in its core specialization while implementing the policy of business diversification. The increase in cash generated in 2017, reduction of loans, and financing through medium and short-term instruments forming the liquidity area of the Company, apart from sales of products and goods, shall be recognized as one of the most important areas of interest and evaluation within the development policy of Arcus Group and its subsidiaries.

The areas which were subject to a thorough assessment of the Supervisory Board were: liquidity situation of the Company, the Group's organizational structure and the status of a dispute with Energa Operator. According to the cash flow statement, the Company closed the financial year 2017 with a positive change in cash.

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

Throughout the year 2017, within the structure of the Supervisory Board an Audit Committee has been operating. The Audit Committee exercised constant supervision over the Company's internal control and risk management systems. Other Members of the Supervisory Board were provided by the Company's Management Board with the regular and comprehensive information on all important matters concerning the business operations, risks associated with these operations and on methods of mentioned risks management.

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

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

Additionally, the Company applies a multi-level acceptance system for cost invoices, aimed at preventing the erroneous classification of invoices and the distortion of the financial result of the Company. The system for the control of current balances applied by the Company within the internal control processes, is aimed at preventing erroneous recognition of given items in the balance sheet. Both the semi-annual and annual financial statements, in accordance with the applicable regulations, are subject to audit and review by the certified auditor. In opinion of the Supervisory Board, the above described internal control system of the Company, effectively prevents the risk of an erroneous assessment of the financial position of the Company.

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

2. Assessment of the risk management system

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

- the Management Board,
- the Supervisory Board.

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

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

- Currency risk. The currency risk arises from the nature of import activities with regard to the goods from EUR and USD zones which are afterwards sold on the domestic market in PLN. Currency risk management mainly concerns the optimization of purchases of goods and services as well as payment deadlines.

- Interest rate risk. This risk applies mainly to minimizing the risk associated with the use of financial instruments (leasing, credit) for financing the long-term outsourcing agreements (e.g. lease of the equipment for clients). Surplus funds are invested in safe financial instruments with a maturity of up to one year.
- Credit risk. Credit risk primarily relates to such classes of assets as: receivables, loans granted, cash and bank deposits, short-term financial assets. Surplus funds are invested only in instruments and entities with high financial credibility.
- Risk related to financial assets held - liquidity management covers the following areas: ongoing monitoring of trade liabilities and receivables, cash flow and cash needs forecasting.
- Legal risk. Risks related to legal disputes, which despite of the Company's credible justification for presented judgments, indicates the element of uncertainty as to the final settlements.

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

3. Assessment of the internal control system

The internal control in the Company is exercised on an ongoing basis by the employees of all organizational units. It mainly concerns the analysis of compliance of decisions and operational activities with internal procedures. The internal control process is supervised by the Management Board and exercised by the managers and directors of individual organizational units, particularly in the financial department. The actions of the Company's Management Board to ensure the effectiveness of internal controls are taken on an ongoing basis. The areas of activity that may cause complications in the future are identified continuously.

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

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| 1. Marek Czeredys – Chairman of the Supervisory Board | |
| 2. Tomasz Konewka – Vice-Chairman of the Supervisory Board | |
| 3. Leszek Lechowski - Member of the Supervisory Board | |
| 4. Krzysztof Franciszek Przybył - Member of the Supervisory Board | |
| 5. Bogusław Wasilewko - Member of the Supervisory Board | |
| 6. Michał Łotoszyński - Member of the Supervisory Board | |

Supervisory Board's assessment of the position of ARCUS GROUP in 2017

1. Supervisory Board's assessment of the position of ARCUS GROUP in 2017

The Supervisory Board of ARCUS S.A. with its registered office in Warsaw (**the Company**), in accordance with the corporate governance rules set forth in the document: 'Best Practice of WSE Listed Companies', hereby discloses the report on the assessment of the situation of Arcus Group in 2017 carried out by the Company's Supervisory Board.

In the financial year 2017, the Supervisory Board of ARCUS S.A. executed an ongoing supervision over the implementation of the Group's strategy in terms of:

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

The analysis of the numbers and indicators presented in the annual financial statement as well as in the Management Board's report on the Group's activities in 2017 allows to draw the following conclusions:

- sales revenues of the Group amounted to PLN 142 million which marks an increase of PLN 21 million (17.4%) comparing to 2016,
- Group reported a profit on operating activities in the amount of PLN 3.6 million, as compared to a net loss on operating activities in the amount of PLN 3.2 million reported in 2016,
- net financial result (net profit) attributable to the Shareholders of a Dominant Entity amounted to PLN 1.3 million which represents an increase by 6.5 million as compared to 2016,
- balance sheet total of the Group amounted to PLN 114.4 million at the end of 2017.

After analyzing the Group's annual consolidated financial statement and the Management Board's report on Group's activities in 2017, the Supervisory Board notes that attention should be paid to an increase in sales revenues and significant improvement in results at all levels as compared to last year.

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

Throughout the year 2017, within the structure of the Supervisory Board an Audit Committee has been operating. The Audit Committee exercised constant supervision over the Company's internal control and risk management systems. Other Members of the Supervisory Board were provided by the Company's Management Board, with the regular and comprehensive information on all important matters concerning the business operations, risks associated with these operations and on methods of mentioned risks management.

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

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

Additionally, the Group applies a multi-level acceptance system for cost invoices, aimed at preventing the erroneous classification of invoices and the distortion of the financial result of the Group. The system for the control of current balances applied by the Group within the internal control processes, is aimed at preventing erroneous recognition of given items in the balance sheet.

Both the semi-annual and annual financial statements, in accordance with the applicable regulations, are subject to audit and review by the certified auditor. In opinion of the Supervisory Board, the above described internal control system of the Group, effectively prevents the risk of an erroneous assessment of the financial position of the Group.

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

2. Assessment of the risk management system

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

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

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

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

3. Assessment of the internal control system

The internal control in the Group is exercised on an ongoing basis by the employees of all organizational units. It mainly concerns the analysis of compliance of decisions and operational activities with internal procedures. The internal control process is supervised by the Management Board and Management Board of subsidiaries and exercised by the managers and directors of individual organizational units, particularly in the financial department.

The actions of the Group's Management Board to ensure the effectiveness of internal controls are taken on an ongoing basis. The areas of activity that may cause complications in the future are identified continuously.

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

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

Report of the Supervisory Board on the assessment of the separate financial statement of ARCUS S.A. for the period from 1 January 2017 to 31 December 2017 and the Management Board's report on activities of ARCUS S.A. in 2017

1. Report of the Supervisory Board on the assessment of the separate financial statement of ARCUS S.A. for the period from 1 January 2017 to 31 December 2017 and the Management Board's report on activities of ARCUS S.A. in 2017

1.1. Assessment of the separate financial statement for the year 2017

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

- the separate financial statement for the year 2017 prepared in accordance with the International Financial Reporting Standards, consisting of:

- statement of financial position prepared as at 31 December 2017 with total assets and liabilities of PLN 122 391 thousand;
- profit and loss account for the period of 1 January 2017 – 31 December 2017 with a net profit at the amount of PLN 4 075 thousand;
- statement of comprehensive income for the period of 1 January 2017 – 31 December 2017, with a loss of PLN 4 075 thousand;
- statement of changes in equity for the period of 1 January 2017 – 31 December 2017, disclosing an increase in equity by the amount of PLN 4 075 thousand;
- cash-flow statement for the period of 1 January 2017 – 31 December 2017, disclosing an increase in cash by the amount of PLN 692 thousand;
- additional information and explanations;

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

- the Management Board's report on activities of ARCUS S.A. in 2017.

1.2. Opinion of an entity authorized to audit the financial statements

DORADCA Auditors Sp. z o.o. as an entity authorized to audit the financial statements, was selected by the Company's Management Board to audit the annual separate financial statement. The Supervisory Board has reviewed the report of a certified auditor on the audit of the financial statement.

In accordance with the content of the report of an entity auditing the financial statement for the year 2017, the Company's financial statement covering figures and relevant explanations, presents truly and clearly all the information significant for the assessment of the financial position of ARCUS S.A. as at 31 December 2017 as well as its financial result for the financial year ended 31 December 2017.

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

In accordance with the opinion of the independent certified auditor, the financial statement complies with the regulations affecting the content of the financial statement as well as with provisions of the Company's Articles of Association.

In opinion of the independent certified auditor, the report on the activities of ARCUS S.A. is complete within the meaning of Art. 49.2 of the Accounting Act and the information included therein complies with the audited financial statement and is in line with the provisions of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and on conditions for recognition as equivalent of the information required by laws of non-European Union member states (2009 Journal of Laws No. 33, item 259, as amended). The auditor pointed out that attention should be given to the dispute between ARCUS S.A. and Energa Operator S.A. which was described in detail in the financial statement.

1.3. Management and Supervisory Board

Management Board

As of 31 December 2017 and as of the day of the financial statement hereof publication, the composition of the Management Board was as follows:

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

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 of 31 December 2017 and as of the date of publication of the financial statement hereof, the composition of the Supervisory Board was as follows:

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

As of 1 January 2017, 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.

Throughout the year 2017, within the structure of the Supervisory Board an Audit Committee has been operating. In the period from 1 January 2017 – 10 October 2017, the composition of the Audit Committee was as follows:

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

On 10 October 2017, the composition of the Audit Committee was changed based on the resolution of the Supervisory Board. Therefore, from 10 October to 31 December 2017, the composition of the Audit Committee was as follows:

- Leszek Lechowski – Chairman of the Committee,
- Michał Łotoszyński - Member of the Committee,

- Krzysztof Franciszek Przybył - Member of the Committee.

2. Conclusions from the assessment of the financial statement of ARCUS S.A. for the year 2017 and the Management Board's report on activities of ARCUS S.A. in 2017

The Supervisory Board, having read the separate financial statement of Arcus S.A. for the year 2017 and based on the certified auditor's opinion and report, states that the data contained in the annual financial statement of ARCUS S.A. correctly and reliably present the financial position as well as reflect reliably and clearly all information relevant to the assessment of the operating result, profitability and cash flow in the audited period. The financial information included in the Management Board's report on activities of Arcus S.A. in 2017 is derived directly from the audited annual financial statement and is consistent with this statement.

The analysis of the numbers and indicators presented in the annual financial statement as well as in the Management Board's report on activities of Arcus S.A. in 2017 allows to draw the following conclusions:

- sales revenues of the Company reached PLN 113.94 million and increased by 16.5% compared to the previous year,
- the Company generated operating profit in the amount of PLN 4.21 million and net profit in the amount of PLN 4.07 million,
- the balance sheet total of the Company reached PLN 122.39 million at the end of 2017.

After analyzing the separate financial statement of Arcus S.A. and Management Board's report on activities of Arcus S.A. in 2017, the Supervisory Board notes that the Company's situation has improved significantly compared to 2016. Company's positive annual results were significantly influenced by the Company's focus on the areas in which it has the highest competences. Introduction and implementation of cost reduction programs were also of considerable importance. Supervisory Board delivered its opinions on the implementation of the Company's strategy and investment policy on an ongoing basis.

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

Supervisory Board of the Company states that the Company complies with the corporate governance principles set forth in the document "Best Practice for GPW Listed Companies", 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.

4. Distribution of profit for the year 2017

The Supervisory Board reviewed the proposal of ARCUS S.A. Management Board as regards distribution of profit for the year 2017.

5. The Supervisory Board requests:

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

- approve the Management Board's report on the Company's activities in 2017,
- approve the annual separate financial statement of ARCUS S.A. for the year 2017,
- approve the proposal of ARCUS S.A. Management Board as regards distribution of profit for the year 2017.

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

Report of the Supervisory Board on the assessment of the financial statement of ARCUS Group for the financial year ended 31 December 2017 and the Management Board's report on activities of ARCUS Group in 2017

1. Assessment of the consolidated financial statement for the year 2017

Structure of ARCUS Capital Group

ARCUS Capital Group is composed of:

- **ARCUS S.A.** – Dominant Entity with its registered office in Warsaw. The company is recorded by the District Court for the Capital City of Warsaw (12th Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000271167. The development of comprehensive, integrated systems for document and mass correspondence management is the principal business of the Company.
- **T-matic Systems S.A.** with its registered office in Warsaw. The company is recorded by the District Court for the Capital City of Warsaw (13th Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000444112. Telematics services for the passenger and heavy transport, power sector, heat engineering, gas and waterworks industry is the principal business of the Company. As at balance sheet day ARCUS S.A. holds 74.73% shares of T-matic.
- **DocuSoft Sp. z o.o.** with its registered office in Bielsko-Biala, 153 Warszawska Street. The company is recorded by the District Court for the City of Bielsko-Biala (8th Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000204275. Manufacture of software and implementation of workflow management systems is the principal business of the Company. As at balance sheet day ARCUS S.A. holds 86.96% shares of DocuSoft.
- **Durau Sp. z o.o.** with its registered office in Wrocław, 8-11 Mikołaja Street. The company is recorded by the District Court for the Wrocław (6th Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000490845. The principal business of this Company is construction of a nationwide purchasing group for small and medium-sized businesses in the media, energy, fuel and services sectors. As at balance sheet day ARCUS S.A. holds 84.1% shares of Durau Sp. z o.o.
- **Arcus Systemy Informatyczne Sp. z o.o.** (ASI, previously Syntea Business Solutions Sp. z o.o.) with its registered office in Lublin, 9a Wojciechowska Street; recorded by the District Court for the City of Lublin (6th Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000031806. The company operates in the IT market since 1996 and provides consultancy, implementation and maintenance services for public entities and companies in the field of Enterprise Resource Planning (ERP). As at balance sheet day ARCUS S.A. holds 53.0% shares of ASI.
- **Geotik Sp. z o.o.** with its registered office in Warsaw. The company is recorded by the District Court for the Capital City of Warsaw (12th Commercial Department of the National Court Register) in the register of entrepreneurs under the number KRS 0000444112. Telematics services for the passenger and heavy transport, power sector, heat engineering, gas and waterworks industry is the principal business of the Company. As at balance sheet day ARCUS S.A. holds 66.7% shares of Geotik Sp. z o.o.
- Arcus Kazakhstan Sp. z o.o. with its registered office in Astana, Kazakhstan (100% shares).

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

- the consolidated financial statement for the year 2017 prepared in accordance with the International Financial Reporting Standards, consisting of:

- consolidated balance sheet prepared as at 31 December 2017 with total assets and liabilities of PLN 114 378 thousand;

- consolidated profit and loss account for the period of 1 January 2017 – 31 December 2017 with a net profit attributable to the shareholders of a Dominant Entity in the amount of PLN 1 266 thousand;
- consolidated statement of comprehensive income for the period of 1 January 2017 – 31 December 2017, with a net profit attributable to the shareholders of a Dominant Entity in the amount of PLN 1 266 thousand;
- statement of changes in consolidated equity for the period of 1 January 2017 – 31 December 2017, disclosing an increase in equity by the amount of PLN 976 thousand;
- consolidated cash-flow statement for the period of 1 January 2017 – 31 December 2017, disclosing an increase in cash by the amount of PLN 744 thousand;
- additional information and explanations with regard to compliance with books of account, documents and facts,

- the Management Board's report on activities of ARCUS Group in 2017.

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

Pursuant to the Resolution of the Supervisory Board of 9 June 2017, DORADCA Auditors Sp. z o.o. as an entity authorized to audit the financial statements was selected by to audit the annual separate and consolidated financial statements of ARCUS S.A. The Supervisory Board has reviewed the report of a certified auditor on the audit of the consolidated financial statement.

In accordance with the content of the report of an entity auditing the consolidated financial statement for the year 2017, the financial statement of the Group covering figures and relevant explanations, presents truly and clearly all the information significant for the assessment of the financial position of ARCUS Group as at 31 December 2017 as well as its financial result for the financial year from 1 January to 31 December 2017.

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

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

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

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

Management Board

As of 31 December 2017 and as of the day of the financial statement hereof publication, the composition of the Management Board was as follows:

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

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 of 31 December 2017 and as of the date of publication of the financial statement hereof, the composition of the Supervisory Board was as follows:

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

As of 1 January 2017, 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.

Throughout the year 2017, within the structure of the Supervisory Board an Audit Committee has been operating. In the period from 1 January 2017 – 10 October 2017, the composition of the Audit Committee was as follows:

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

On 10 October 2017, the composition of the Audit Committee was changed based on the resolution of the Supervisory Board. Therefore, from 10 October to 31 December 2017, the composition of the Audit Committee was as follows:

- Leszek Lechowski – Chairman of the Committee,
- Michał Łotoszyński - Member of the Committee,
- Krzysztof Franciszek Przybył - Member of the Committee.

4. Conclusions arising from the assessment of the financial statement of ARCUS Group for the year 2017 and the Management Board's report on activities of ARCUS Group in 2017

The Supervisory Board, after reviewing the Group's financial statement for the year 2017 and on the basis of the content of the opinion of the certified auditor, states that the data included in ARCUS Group's annual financial statement present truly and clearly the financial position of the Group and reliably reflect all the information significant for the assessment of the economic result, profitability and cash flow in the audited period. The financial information included in the Management Board's report on activities of Arcus Group in 2017 is derived directly from the audited annual financial statement and is consistent with this statement.

The analysis of the numbers and indicators presented in the annual financial statement as well as in the Management Board's report on activities of Arcus Group in 2017 allows to draw the following conclusions:

- the sales revenues reported by the Group amounted to PLN 141 676 thousand which represents an increase by 17.06% comparing to previous year,
- profit on operating activities reported by the Group amounted to PLN 3 592 thousand,
- net profit generated by the Group, attributable to the Shareholders of a Dominant Entity amounted to PLN 1 266 thousand,
- the balance sheet total at the end of 2017 amounted to PLN 114 378 thousand.

After the review of the consolidated financial statement and the Management Board's report on activities of Arcus Group in 2017, the Supervisory Board notes that the Group's situation improved compared to 2016 due to the net profit generated. The measures aimed at improving the sales profitability as well as the efficiency of the commodity and warehouse management, were implemented. New business areas are being developed.

The Supervisory Board assesses the Group's financial position as relatively good, and continues to support restructuring activities carried out by the Management Board of the Company. Comprehensive operations involving pro-development activities and measures aimed at reducing or making the group's operating costs more flexible, are recognized by the Supervisory Board as the direction of further systematic improvement of economic performance and development opportunities.

5. The Supervisory Board requests:

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

- approve the Management Board's report on activities of ARCUS Group's in 2017,
- approve the annual consolidated financial statement of ARCUS Group for the year 2017.

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

**Report of the Supervisory Board on the results of assessment
of the proposal of ARCUS S.A. Management Board
on distribution of profit
for the financial year ended on 31 December 2017**

On the basis of Art. 382.3 of the Commercial Companies Code, the Supervisory Board of ARCUS S.A. ('the Company') has carried out the assessment of the proposal of the Company's Management Board on distribution of profit for the year 2017 in the amount of PLN 4 073 762.49, allocating this profit to the reserve capital of the Company.

After reviewing the Company's financial statement for the year 2017 and the opinion of the certified auditor on the audit of this financial statement, as well as having regard to the analysis of the position and development prospects of the Company, the Supervisory Board approves the position of the Management Board and decides to recommend it to the Shareholders.

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

**Report on the activities of
the Audit Committee of ARCUS S.A. Supervisory Board in 2017**

The Supervisory Board of ARCUS S.A. with its registered office in Warsaw ('the Company') in accordance with corporate governance rules set forth in the document 'Best Practice of WSE Listed Companies', hereby discloses for the attention of the Shareholders of ARCUS S.A., the report on the activities of the Audit Committee in the financial year ended 31 December 2017.

Throughout the year 2017, within the structure of the Supervisory Board an Audit Committee has been operating. In the period from 1 January 2017 – 10 October 2017, the composition of the Audit Committee was as follows:

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

On 10 October 2017, the composition of the Audit Committee was changed based on the resolution of the Supervisory Board. Therefore, from 10 October to 31 December 2017, the composition of the Audit Committee was as follows:

- Leszek Lechowski – Chairman of the Committee,
- Michał Łotoszyński - Member of the Committee,
- Krzysztof Franciszek Przybył - Member of the Committee.

Audit Committee of ARCUS S.A. Supervisory Board acted in accordance with the Act of 7 May 2009 on certified auditors, their self-government, entities authorized to audit financial statements and public supervision, and the Act of 11 May 2017 on auditors, audit firms and public supervision (Journal of Laws of 2017 item 1089). In 2017, the Audit Committee held 4 meetings analyzing the current operations of the Company, as well as the Company's financial statements for 2016 and the auditor's report on the audit of the Company's financial statements and the activities of the Company's Management Board for the year 2016.

When assessing its operations in 2017, the Audit Committee analyzed the accuracy and effectiveness of the activities carried out as part of its tasks, including in particular:

- monitoring of the financial reporting process, including monitoring of the works and independence of the entity authorized to audit financial statements,
- monitoring of the effectiveness of internal control, internal audit and risk management systems.

The subject of the regular tasks of the Audit Committee is the process of monitoring of works related to the process of preparing and revising the financial statements of the Company, hence the Committee cooperated with the auditor in this area on an ongoing basis. As part of its statutory rights, the Audit Committee examined the independence of the auditor executing the audit of the Company's financial statements - DORADCA Auditors Sp. z o.o. with its registered office in Gdańsk, both in relation to the Company and to its managers and supervisors.

The independence has been confirmed on the basis of statements made by the auditor as to the personal independence and the independence of the statutory auditor in relation to ARCUS S.A. The Committee has monitored the correctness of preparing the financial statements by the Company and has closely cooperated in this respect with the auditor auditing the financial statements.

In opinion of the Audit Committee, the cooperation of auditors with the Management Board was properly performed and did not raise any objections. The Audit Committee monitored the financial reporting process on an ongoing basis, and the financial statements in all aspects were prepared in accordance with the accounting principles and on the basis of correctly kept accounting books and reliably reflect the results of the business operations and the financial position

of the Company. The Audit Committee also reviewed the Management Board's Report on activities of the Company, recognizing that the presented figures and facts are true and fair.

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

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

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

Signatures of Members of the Audit Committee

Leszek Lechowski
.....

Michał Łotoszyński - Chairman of the Committee
.....

Krzysztof Przybył
.....

Report on the activities of ARCUS S.A. Supervisory Board in 2017

The Supervisory Board of ARCUS S.A. with its registered office in Warsaw ('the Company') in accordance with corporate governance rules set forth in the document 'Best Practice of WSE Listed Companies', hereby discloses for the attention of the Shareholders of ARCUS S.A., the report on the activities of the Supervisory Board in the financial year ended 31 December 2017.

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 of 31 December 2017 and as of the date of publication of the financial statement hereof, the composition of the Supervisory Board was as follows:

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

As of 1 January 2017, 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.

Throughout the year 2017, within the structure of the Supervisory Board an Audit Committee has been operating. In the period from 1 January 2017 – 10 October 2017, the composition of the Audit Committee was as follows:

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

On 10 October 2017, the composition of the Audit Committee was changed based on the resolution of the Supervisory Board. Therefore, from 10 October to 31 December 2017, the composition of the Audit Committee was as follows:

- Leszek Lechowski – Chairman of the Committee,
- Michał Łotoszyński - Member of the Committee,
- Krzysztof Franciszek Przybył - Member of the Committee.

Report on activities and self-evaluation of the work of ARCUS S.A. Supervisory Board in 2017

In 2017, the Supervisory Board of ARCUS S.A. held a total of 5 meetings, all of which took place at the Company's headquarters in Warsaw. The Supervisory Board have passed resolutions by circulation and by means of distance communication. All Members participated in the meetings of the Supervisory Board.

Within the scope of its competences specified in the Articles of Association and the Commercial Companies Code, ARCUS S.A. Supervisory Board discussed a number of matters of significant importance for the Company's operations. In particular, the following matters were the subject of discussion:

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

As part of the above-mentioned activities, the Supervisory Board adopted resolutions, among others on the following matters:

- selection of the auditor for the audit of the separate financial statement of ARCUS S.A. and consolidated financial statement of ARCUS Group prepared in accordance with the International Financial Reporting Standards as at 31 December 2017 and 31 December 2018 together with an in-depth analysis of the financial statements of subsidiaries, and for the review of the semi-annual financial statement,
- reviewing the content of draft resolutions proposed by the Management Board that were to be discussed at the Ordinary General Meeting of the Company's Shareholders,
- analysis and evaluation of financial statements for the first half of 2017;
- approval of the report on the results of the assessment of the Management Board's report on activities of ARCUS S.A. and ARCUS Group in 2017 as well as the financial statement of the Company and the consolidated financial statement of ARCUS S.A. Capital Group for the financial year 2017,
- approval of the report on activities of the Supervisory Board in 2017,
- approval of the report presenting a brief assessment of the Company's situation in 2017.

The Supervisory Board monitored the situation of the Company and gave opinions on current issues and planned actions. Throughout the reporting period, all Members of the Supervisory Board were in constant contact with the Management Board of ARCUS S.A. The Supervisory Board was able to obtain information from the Management Board regarding the Company's financial situation, projects implemented by the Company and cooperation with contractors. Consultations on matters related to particular aspects of the Company's operations were carried out on an ongoing basis. This particularly concerned the management of risks related to the Company.

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

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

Throughout the year 2017 within the structure of the Supervisory Board an Audit Committee has been operating. The Audit Committee exercised ongoing supervision over the Company's internal control and risk management systems. Other Members of the Supervisory Board were provided by the Company's Management Board with the regular and comprehensive information on all important matters concerning the business operations, risks associated with these operations and on methods of mentioned risks management.

In terms of financial statements preparation, the internal control in the Company is exercised through the activities carried out jointly by the President of the Management Board (who supervises the financial and accounting policies of

the Company) and the Financial Director (performing the functions of a Chief Accountant). The internal control system applied by the Company is aimed at:

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

Additionally, the Company applies a multi-level acceptance system for cost invoices, aimed at preventing the erroneous classification of invoices and the distortion of the financial result of the Company. The system for the control of current balances applied by the Company within the internal control processes, is aimed at preventing erroneous recognition of given items in the balance sheet. Both the semi-annual and annual financial statements, in accordance with the applicable regulations, are subject to audit and review by the certified auditor. In opinion of the Supervisory Board, the above described internal control system of the Company, effectively prevents the risk of an erroneous assessment of the financial position of the Company.

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

2. Assessment of the risk management system

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

- the Management Board,
- the Supervisory Board.

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

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

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

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

3. Assessment of the internal control system

The internal control in the Company is exercised on an ongoing basis by the employees of all organizational units. It mainly concerns the analysis of compliance of decisions and operational activities with internal procedures. The internal control process is supervised by the Management Board and exercised by the managers and directors of individual organizational units, particularly in the financial department. The actions of the Company's Management Board to ensure the effectiveness of internal controls are taken on an ongoing basis. The areas of activity that may cause complications in the future are identified continuously.

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

Warsaw, 22 May 2018

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