ARCUS Spółka Akcyjna

www.arcus.pl

Consolidated financial Statement

of Arcus Group

for the period of

1 January 2018 – 31 December 2018

Warsaw, 26 April 2019

1 DATA REGARDING THE ANNUAL FINANCIAL STATEMENT OF ARCUS GROUP

1.1 SELECTED FINANCIAL DATA

	SELECTED FINANCIAL DATA	PLN THOUSAND		EUR THOUSAND	
		year ended 31.12.2018	year ended 31.12.2017	year ended 31.12.2018	year ended 31.12.2017
I	Sales revenues	138 381	141 676	32 435	33 377
II	Profit (loss) on operating activities	1 755	3 593	411	847
III	Profit (loss) before tax	120	4 115	28	969
IV	Profit (loss) on consolidation	-37	403	-9	95
V	Profit (loss) attributable to the shareholders of a Dominant Entity	655	1 266	154	298
VI	EBITDA	5 126	6 566	1 201	1 547
VII	Comprehensive income	-37	403	-9	95
VIII	Comprehensive income attributable to the shareholders of a Dominant Entity	655	1 266	154	298
IX	Net Cash Flows from operating activities	401	5 875	94	1 384
X	Net Cash Flows from investing activities	-1 810	-1 962	-424	-462
XI	Net Cash Flows from financing activities	1 387	-3 191	325	-752
XII	Change in cash	-22	744	-5	175
XIII	Net profit (loss) and diluted net profit (loss) per share attributable to the shareholders of a Dominant Entity	0,09	0,17	0,02	0,04
		As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017
XIV	Total assets	103 564	114 378	24 085	27 423
XV	Long-term liabilities	20 211	22 002	4 700	5 275
XVI	Short-term liabilities	39 455	45 412	9 176	10 888
XVII	Equity	43 898	46 963	10 209	11 260
XVIII	Equity attributable to the shareholders of a Dominant Entity	36 907	43 615	8 583	10 457
XIX	Share capital	732	732	170	176
XX	Weighted average number of shares	7 320 000	7 320 000	7 320 000	7 320 000
XXI	Book value and diluted book value per share attributable to the shareholders of a Dominant Entity	5,04	5,96	1,17	1,43

1.2 Rules adopted for conversion of financial data

The financial data in EUR have been converted according to the following rules:

- particular items of assets and liabilities - according to the exchange rate as at 31.12.2018 - PLN/EUR 4,300, as at 31.12.2017 - PLN/EUR 4,1709, as at 31.12.2016 - PLN/EUR 4,424.

- particular items of the statement of comprehensive income and the statement of cash flows at the exchange rate based on the arithmetic mean of exchange rates set by the National Bank of Poland on the last day of each month of the year:

- for the period from 1 January 2018 do 31 December 2018: PLN/EUR 4,2664
- for the period from 1 January 2018 do 31 December 2017: PLN/EUR 4,2447
- for the period from 1 January 2018 do 31 December 2016: PLN/EUR 4,3757

1.3 Statement of financial position

Assets

	Note	As at 31.12.2018	As at 31.12.2017
FIXED ASSETS			
Tangible assets	15	3 478	3 532
Intangible assets	16	6 952	7 757
Goodwill on consolidation	17	10 797	13 826
Participating interests in affiliated undertakings		350	
Long-term receivables	19	11 220	6 357
Deferred income tax assets		5 233	4 413
Total		38 030	35 885
CURRENT ASSETS			
Inventories	20	12 497	9 281
Trade receivables and other receivables	21	50 763	66 936
Loans granted		471	452
Cash	22	1 802	1 824
Total		65 533	78 493
TOTAL ASSETS		**103 563**	**114 378**

Liabilities

	Note	As at 31.12.2018	As at 31.12.2017
Equity attributable to the shareholders of a Dominant Entity			
Share capital	23	732	732
Share premium	24	37 631	37 631
Revaluation reserve	25	-7 364	
Other reserves		143	143
Retained earnings	26	5 765	5 110
Total		36 907	43 616
Non-controlling interests		6 991	3 347
Equity – total		43 898	46 963
Long-term liabilities	28		
Deferred income tax reserve	28	5 638	4 877
Provisions for liabilities	27	404	340
Other long-term liabilities	28,32	14 169	16 785
Total		20 211	22 002
Short-term liabilities			
Short-term loans and credits	32	4 937	2 218
Trade liabilities and other liabilities	29,30	33 725	42 449
Provisions for liabilities	27	792	746
Total		39 454	45 413
Other liabilities			
TOTAL LIABILITIES		**103 563**	**114 378**

1.4 Profit and loss account

Profit and loss account

	Note	year ended 31.12.2018	year ended 31.12.2017
Sales revenues	6,7	138 381	141 676
Costs of products, goods and materials sold	8	-100 628	-104 333
Gross profit (loss) from sales		37 753	37 343
Other operating income	9	889	1 364
Costs of sales	8	-24 672	-22 501
General administrative expenses	8	-11 866	-12 199
Other operating expenses	8	-349	-415
Operating income (loss)		1 755	3 592
Financial income	11	255	861
Financial costs	12	-1 890	-339
Profit (loss) before tax		120	4 114
Income tax:	13	-157	-3 711
Net profit (loss)		-37	403
Profit (loss) attributable to:			
Shareholders of a Dominant Entity	14	655	1 266
Minority Shareholders		-692	-863
Profit (loss) per share attributable to Shareholders of a Dominant Entity			
Ordinary and diluted	14	0,09	0,17

1.5 Statement of comprehensive income

Statement of comprehensive income

	Note	year ended 31.12.2018	year ended 31.12.2017
Net profit (loss) for the period		-37	403
Comprehensive income for the period		-37	403
Comprehensive income for the period attributable to:			
Shareholders of a Dominant Entity		655	1 266
Minority Shareholders		-692	-863

1.6 Cash flow statement

	year ended 31.12.2018	year ended 31.12.2017
Cash flows from operating activities		
Profit before tax	120	4 115
Adjustments	281	1 759
Depreciation and amortisation	3 371	2 973
Interests received	440	248
Result on investing activities	-378	-5
Change in inventories	-3 216	-682
Change in receivables	11 309	-15 945
Change in liabilities and reserves	-11 228	15 096
Change in other assets		
Other	-17	74
Net cash from operating activities	401	5 874
Cash flows from investing activities		
Inflows	813	704
Disposal of intangible and tangible fixed assets	633	304
Repayment of loans	180	400
Outflows	-2 623	-2 666
Purchases of intangible and fixed tangible assets	-2 093	-2 466
Purchases of financial assets	-350	
Loans granted	-180	-200
Net cash from investing activities	-1 810	-1 962
Cash flow from financing activities		
Inflows	4 860	30
Proceeds from loans and borrowings	4 838	
Interests	4	30
Other	18	0
Outflows	-3 473	-3 198
Acquisition of shares		
Dividends and other payments to the owners	-367	-200
Repayment of credits and loans	-2 151	-2 073
Financial lease payments	-505	-671
Interests paid	-450	-254
Net cash from financing activities	1 387	-3 168
Change in cash	**-22**	**744**
Cash at the beginning of the period	1 824	1 080
Cash at the end of the period	**1 802**	**1 824**

1.7 Statement of changes in equity

1 January 2018 – 31 December 2018

	Equity attributable to the shareholders of a Dominant Entity					
	Share capital, reserve capital share premium	Retained earnings	Revaluation reserve	TOTAL	Equity attributable to non-controlling shareholders	TOTAL EQUITY
As at 1 January 2018	**38 506**	**5 110**		**43 616**	**3 347**	**46 963**
Net profit/loss		655		**655**	-692	**-37**
Total of comprehensive income		655		**655**	-692	**-37**
Merger with a subsidiary			-7 364	**-7 364**	4 336	**-3 028**
As at 31 December 2018	**38 506**	**5 765**	**-7 364**	**36 907**	**6 991**	**43 898**

1 January 2017 – 31 December 2017

	Equity attributable to the shareholders of a Dominant Entity					
	Share capital, reserve capital share premium	Retained earnings	Revaluation reserve	Total	Equity attributable to non-controlling shareholders	EQUITY TOTAL
As at 1 January 2017	**38 506**	**4 134**		**42 640**	**4 476**	**47 116**
Net profit/loss		1 266		**1 266**	-863	**403**
Total of comprehensive income		1 266		**1 266**	-863	**403**
Dividend in subsidiaries		-290		**-290**	-266	**-556**
As at 31 December 2017	**38 506**	**5 110**		**43 616**	**3 347**	**46 963**

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

3 Key information

Dominant Entity

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

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

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

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

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

The data in the consolidated financial statements are presented in thousands of PLN unless they are presented in more detail in certain situations. Polish zloty (PLN) shall be the functional and reporting currency of the Company.

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

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

Management Board

As at 1 January 2018, the composition of the Management Board was as follows:

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

As at 31 December 2018 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

Supervisory Board

According to ARCUS S.A. Articles of Association, the Company's Supervisory Board shall be composed of 5 to 10 members. As at 1 January 2018, 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 at 31 December 2018 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
- Leszek Lechowski – Member of the Supervisory Board
- Michał Łotoszyński – Member of the Supervisory Board
- Krzysztof Rajczewski – Member of the Supervisory Board
- Jolanta Grus – Member of the Supervisory Board

On 27 June 2018, the Ordinary General Meeting of Shareholders appointed members of the Supervisory Board in the aforementioned composition for the next joint three-year term of office.

ARCUS GROUP

ARCUS S.A. Group is composed of the following entities:

- ARCUS SA as a dominant entity
- Subsidiary undertaking - T-matic Systems SA
- Subsidiary undertaking - Geotik Sp. z o.o.
- Subsidiary undertaking – Docusoft Sp. z o.o.
- Subsidiary undertaking – Durau Sp. z o.o. and its subsidiary undertaking - LMT Sp. z o.o. incorporated in 2016
- Subsidiary undertaking – Arcus Systemy Informatyczne Sp. z o.o.
- Affiliated entity – Zeccer Sp. z o.o.

ARCUS S.A. - dominant entity with its registered office in Warsaw at 5/7 Kolejowa Street, registered by the District Court for the City of Warsaw, 12th Commercial Division of the National Court Register under the number KRS 0000271167. Core business of ARCUS S.A. involves sales, lease and maintenance of printing and copying devices of Japanese company – Kyocera Document Solutions, document and correspondence management systems as well as ICT solutions integration (information and communication technologies).

Arcus Systemy Informatyczne Sp. z o.o. (ASI) with its registered office in Lublin at 9a Wojciechowska Street, registered by the District Court for the City of Lublin-Wschód with its seat in Świdnik, 6th Commercial Division of the National Court Register under the number KRS 0000031806. The company provides consultancy, implementation and maintenance services in the field of Enterprise Resource Planning (ERP) to public institutions. Satore Sp. z o.o. is ASI company's affiliated undertaking. Satore Sp. z o.o. does not perform any business activities.

T-matic Systems S.A. („T-matic") with its registered office in Warsaw at 5/7 Kolejowa Street, registered by the District Court for the City of Warsaw, 12th Commercial Division of the National Court Register under the number KRS 0000444112. The core business of T-matic involves provision delivery and development of smart grids for electricity, heating, gas and water supply sectors.

Geotik Sp. z o.o. with its registered office in Warsaw at 5/7 Kolejowa Street, registered by the District Court for the City of Warsaw, 12th Commercial Division of the National Court Register under the number KRS 0000444112. The core business of Geotik involves provision of telematics services (fleet monitoring) for passenger, lorry and working machinery transport.

Docusoft Sp. z o.o., with its registered office in Bielsko-Biała at 153 Warszawska Street, registered by the District Court for the City of Bielsko-Biała, 7th Commercial Division of the National Court Register under the number KRS 0000204275. The Company's core business involves software development and implementation of document workflow management systems.

Durau Sp. z o.o., with its registered office in Wrocław at 40 Robotnicza Street, registered by the District Court for the City of Wrocław, Commercial Division of the National Court Register under the number KRS 0000490845. The company's core business involves establishing a nationwide purchasing group operating in the energy and fuel sectors and offering services to SMEs. A direct subsidiary of Durau is LMT Sp. z o.o., in which Arcus holds 39% of shares (acquired in 2018).

Zeccer Spółka z o.o. with its registered office in Wrocław, whose 15% of shares in the capital of ARCUS S.A. were acquired in the reporting period.

Arcus Kazachstan with its registered office in Astana - the entity was liquidated in July 2018; the entity did not perform any operating activities.

Statement of the Management Board

Statement on the reliability of the consolidated financial statement

Pursuant to the Regulation of the Minister of Finance of 29 March 2018 on current and interim information provided by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state, as amended, the Management Board of ARCUS S.A. hereby declares that to the best of its knowledge, the annual separate financial statement hereof and comparative data have been prepared in accordance with the applicable accounting principles and reflect in a true, fair and transparent manner the property and financial situation of ARCUS S.A. and its financial result, and that the annual report of the Management Board on the activities of ARCUS S.A. presents a true description of the development, achievements and situation of ARCUS S.A., including the description of basic threats and risks

Information of the Management Board

Statement regarding the entity authorised to audit the financial statements

The Management Board of ARCUS S.A. hereby declares that DORADCA Auditors Sp. z o.o. is authorized to audit the financial statement and has been selected in accordance with the law. DORADCA Auditors Sp. z o.o. and its certified auditors performing the audit met the conditions for issuing an impartial and independent audit report, in accordance with the applicable regulations and professional standards and ethics. In accordance with the existing policy regarding the selection of an audit firm, the statutory auditor was selected under the Resolution of the Supervisory Board of 10 October 2017 to audit and review the separate and consolidated financial statements of ARCUS S.A. for the year 2018, in compliance with the applicable regulations related to the rotation of the audit firm, key statutory auditor and the mandatory grace periods.

Warsaw, 26 April 2019

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

4 ACCOUNTING PRINCIPLES

4.1 Basis for financial information preparation

Presented consolidated financial statement has been prepared for the year ended 31 December 2018. The comparative data cover the year ended on 31 December 2017. The Group's financial year is the calendar year. The Group has no discontinued operations. The financial statement has been prepared with the assumption that the Group will continue as a going concern in the foreseeable future. As at the date of financial statement preparation, there are no circumstances indicating a threat to the continuation of Group's business operations.

4.2 Statement of compliance

Presented consolidated financial statement covering the period from 1 January 2018 to 31 December 2018 and comparative data for the period from 1 January 2017 to 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union and includes the information required by the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information published by issuers of securities.

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

The accounting principles and methods of calculation adopted for the preparation of this consolidated financial statement are consistent with the principles described in the approved financial statement of ARCUS Group prepared in accordance with IFRS for the year ended 31 December 2017 and the new standards effective as of 1 January 2018, which have no significant impact on the hitherto applied accounting policy:

- IFRS 9 "Financial Instruments" published on 24 July 2014, approved on 22 November 2016 and effective for annual periods beginning on 1 January 2018
- IFRS 15 "Revenue from Contracts with Customers" published on 28 May 2014, approved on 22 September 2016 and effective for annual periods beginning on or after 1 January 2018;

Below are the standards and interpretations issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, which have been published but have not entered into force:

- Amendments to IFRS 16 on leasing accounting - approved by the EU on 31 October 2017, effective for annual periods beginning on or after 1 January 2019;
- IFRS 14 "Regulatory Deferral Accounts" was published on 30 January 2014; until the date of publication of this financial statement not approved by the EU; effective for annual periods beginning on or after 1 January 2016. However, the European Commission has decided not to begin the process of endorsing this interim standard until a final version of IFRS 14 has been issued.

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - sale or transfers of assets between the investor and the associate or joint venture (the effective date has been deferred until the completion of research on the equity method);

- Amendments to IAS 12 "Recognition of deferred income assets for unrealized losses" - effective for annual periods beginning on or after 1 January 2019; until the date of publication of this financial statement not approved by the EU;

The Group has not decided for the early application of any standard, interpretation or amendment that has been issued but has not yet come into force. In the opinion of the Management Boards of the Group's companies, the above-mentioned standards and interpretations will not have a significant impact on the accounting policy applied so far by the Group.

4.4 Accounting judgments and estimates

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

Contracts for the supply of goods and maintenance of equipment

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

Depreciation rates

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

Impairments losses on tangible assets

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

Impairment losses on inventories

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

Write-offs for overdue receivables

The Group's companies make write-offs for overdue receivables or receivables whose collectability is threatened, including claims for damages due to unjustified performance of the guarantee. Depending on the assessment of the collectability of the above receivables, the value of these assets may change.

Provisions for liabilities

The Group's companies recognize provisions for certain or highly probable liabilities which amount can be reliably estimated. In connection with the claim of Energa Operator S.A. described in paragraph 31, the Management Board of ARCUS S.A. – based on collected documentation and opinion of an external legal firm – believes that mentioned claim is unfounded, and the potential cash outflow in connection with this claim is unlikely. Bearing in mind the above, the Company has not recognized any provisions relating to described dispute as at the balance sheet date.

Deferred income tax assets

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

Non-invoiced revenue

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

5 OUTLINE OF KEY ACCOUNTING PRINCIPLES

5.1 Basis for consolidation

The consolidated financial statement contains the financial statement of a Dominant Entity and the statements of entities controlled by the Dominant Entity prepared as at 31.12.2018 and 31.12.2017.

ARCUS S.A. exercises control over its subsidiaries – T-matic Systems Sp. z o.o. and Docusoft Sp. z o.o. respectively since 29 July 2008 and 24 May 2011. In 2014, as a result of acquisition of shares, ARCUS S.A. took the control of Arcus Systemy Informatyczne Sp. z o.o. In 2014, ARCUS S.A. acquired the shares in Arcus Kazachstan Sp. z o.o., which did not perform business operation and was liquidated in the reporting period. As from 2015, the newly established company Durau Sp. z o.o. is included in the consolidation. In 2016, Durau Sp. z o.o. established a subsidiary undertaking - LMT Sp. z o.o., in which 39% shares were purchased by ARCUS S.A. in 2018. In 2016, the subsidiary T-matic Systems took control over the newly established entity - Geotik Sp. z o.o. In 2017, ARCUS S.A. acquired all the shares held by T-matic in Geotik.

The control is when the dominant entity has the ability to influence the financial and operating policies of an entity so as to obtain benefits from its business operations.

At the acquisition date, the assets and liabilities of the acquired entity are measured at their fair value. The excess of the acquisition price over the fair value of the entity's identifiable net assets is recognized as goodwill. Where the acquisition price is lower than the fair value of the identifiable entity's net assets, the difference is recognized as profit in the profit and loss account of the period in which the acquisition occurred. Non-controlling interests are disclosed in an appropriate proportion of the fair value of assets and capital. In subsequent periods, losses attributable to non-controlling interests exceeding the value of their shares, decrease the Group's equity.

The financial performance of an entity acquired during the year is recognized in the consolidated financial statement as from the date of acquisition / loss of control. Subsidiaries are consolidated using the full method. All transactions, balances, revenues and costs between related entities covered by consolidation are subject to consolidation exclusions.

5.2 Goodwill

Goodwill on consolidation is a result of a surplus (as at the acquisition date) of the cost of entity's acquisition over the fair value of the identifiable assets and liabilities of a subsidiary.
Goodwill is recognized as an asset and is subject to annual impairment tests. Potential impairment loss affects the result of the current period and is not subject to reversal in subsequent periods. For the purposes of the sale of a subsidiary, goodwill is taken into account in order to calculate profit or loss on sales.
Depending on the assessment of the prospects of the subsidiaries, the value of these assets for the Group may change. In the opinion of the Management Board of a Dominant Entity, as at 31 December 2018, there were there were no indications for revaluation of goodwill of the subsidiaries, that is: Docusoft Sp. z o.o., T-matic Systems SA, Arcus Systemy Informatyczne Sp. z o.o. and Geotik Sp. z o.o. In these cases, annual goodwill impairment tests were carried out, which did not indicate the need for revaluation. In connection with the ongoing process of merger of the dominant company with a subsidiary undertaking - T-Matic, the goodwill relating to this entity has been presented in the revaluation reserve.

5.3 Intangible assets

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

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

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

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

5.4 Fixed tangible assets

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

The Group's assets are depreciated over the following periods:

Group	Description of the Group	Depreciation period
Group 1	Buildings	10 years
Group 4	Machines and equipment	6 to 10 years
excluding		
	– computer hardware	3 years
Group 6	Technical devices	5 years
Group 7	Means of transport	5 years
Group 8	Tools, devices, movables and equipment	5 to 7 years

Costs incurred for the renovation, which do not result in the improvement or extension of the useful life of fixed asset are recognized as expense as they are incurred.

ARCUS Group does not hold any intangible assets with indefinite useful life. Depreciation methods and useful lives of fixed tangible assets are subject to verification at each balance sheet date. ARCUS Group does not hold any fixed tangible assets classified as "held for sale".

As at 31 December 2018 the Group has not recognized any impairment losses on fixed tangible assets. As at 31 December 2018 no restrictions were recognized as to the legal title to fixed tangible assets.

5.5 Financial assets

Financial instruments are classified in the following categories:

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

Held-to-maturity financial assets are the assets other than derivatives with fixed or determinable payments and fixed maturities, which the Group intends and has the ability to hold to their maturity. Held-to-maturity financial assets are measured at amortized cost using the effective interest rate method.
Financial assets measured at fair value through profit or loss are the assets acquired for resale and with the aim of generating economic benefits on short-term price changes and fluctuations of other market factors or short duration of the acquired instrument, as well as other financial assets, regardless of the intentions assumed while concluding the contract, if they represent a component of a portfolio of similar financial assets for which there is a high probability of economic benefits in a short-term. Arcus Group does not hold such financial assets.

The fair value is considered the price that would be received by the entity for the sale of an asset or would be paid by the entity for the transferred liabilities in a routine transaction made between market participants at the measurement date. Financial assets at fair value through profit or loss are measured at fair value taking into account their market value at the balance sheet date, excluding transaction costs. Changes in the value of these financial instruments are recognized in the profit and loss account as financial income or expenses. ARCUS Group has no financial assets at fair value through profit or loss. Loans granted and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Granted loans and receivables are classified as current assets if their maturity does not exceed 12 months from the balance sheet date.

Granted loans and receivables with maturities exceeding 12 months from the balance sheet date are classified as fixed assets.
Available-for-sale financial assets are non-derivative financial assets not classified in any of the three categories of assets mentioned above. Available-for-sale financial assets are recognized at fair value, excluding recognition of the purchase cost, but with consideration of market value at the balance sheet date. Where the financial assets are not listed on the Warsaw Stock Exchange and it is not possible to determine their value in a different way, available-for-sale financial assets are measured at cost adjusted for impairment loss. Decrease in value of available-for-sale financial assets resulting from impairment loss is recognized as a financial cost, while the increase is recognized in the revaluation reserve.

As at 31 December 2018, the verification and fair-value tests were carried out with regard to shares held by ARCUS S.A. in subsidiaries: Arcus Systemy Informatyczne Sp. z o.o., Docusoft Sp. z o. o. and Geotik Sp. z o.o.

Methodology for determination of recoverable amount

	Description of applied measurement methodology
Arcus Systemy Informatyczne Sp. z o.o.	Discounted cash-flow method (DCF) based on FCFF (Free Cash Flow to Firm)
Docusoft Sp. z o. o.	Discounted cash-flow method (DCF) based on FCFF (Free Cash Flow to Firm)
Geotik Sp. z o.o.	Discounted cash-flow method (DCF) based on FCFF (Free Cash Flow to Firm)

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

1. The valuation methodology is analogous to the methodology used in the preceding valuation, i.e. as at 31 December 2017, which was used in the financial statements for 2017.
2. The updates, compared to the previous valuation, include:

    a. update of operational and financial projections for the next 3 years, i.e. for the period 2019-2021,
    b. update of parameters used for calculation of the weighted average cost of capital (WACC) and responsible for the increase of uncertainty in the implementation of key contracts (risk premiums) and increase of cost of capital based on the current terms for 10-year Treasury bonds.
3. Analysis of financial statements of companies for the years 2017-2018 and analytical compilation of data on individual balance sheet items.
4. Analysis of the implementation of the annual financial plans of companies for the year 2018.
5. Annual financial projections of companies for the year 2019.
6. The strategies of companies for the years 2019-2021.
7. Macroeconomic assumptions and projections for individual market segments.
8. For companies operating in multiple segments, a separate valuation based on economic performance and assets and liabilities assigned to the respective segments is made.
9. For individual valuations of participating interests, the sensitivity analysis is performed in respect of the significant factors affecting the business activity, including:

- weighted average cost of capital
- growth rates for the needs of residual value calculation.

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

According to the tests carried out as at 31 December 2018, there were no indications for revaluation of the participating interests in Arcus Systemy Informatyczne Sp. z o.o., Docusoft Sp. z o. o., Geotik Sp. z o.o. The estimates have shown that future cash flows will be at least equal to the value of participating interests as at the balance sheet date. Additionally, an analysis of the sensitivity of valuation of particular companies and the value of participating interest and shares is performed. However, it must be borne in mind that, depending on the assessment of the prospects of particular companies and respective segments, the value of these assets for Arcus S.A., may change.

Sensitivity analysis

The sensitivity analysis did not reveal any significant risk of decreasing the valuation of individual companies or selected segments. Projections for valuation purposes were based on contracts for which there is a very high probability of execution. Due to the risk of non-performance/organization of the tenders, as well as the risk of potential problems with co-financing IT contracts with the EU funds and uncertainty as to the development of the energy market agency services, the market risk premium and specific risk premium were increased for valuation purposes.

ASI valuation

	Plan Execution	Forecast		
Forecast period	0	1	2	3
Forecast year		2019	2020	2021
CF		-374	1 949	2 143
interest expenses + tax adjustment		159	229	246
return of debts		-2 213	-350	-500
new debts		350	500	500
dividend		0	0	0
FCFE		-2 078	2 328	2 389
FCFF		-2 237	2 099	2 143
FCFF		-2 237	2 099	2 143
DCF		-1 982	1 646	1 485
(PLN million)				
The current value of free cash flows FCFF	1 149			
Residual value	23 213			
Current residual value	16 088			
Gross value of the company	17 237			
Net debt	1 592			

Income value	15 644
Value of Arcus share	8 292

Financial projections 3y: 2019-2021

(PLN)	2019	2020	2021
Revenues - total	26 478	30 877	33 516
Costs - total	25 467	29 186	31 674
EBIT[1]	1 011	1 691	1 842
Net profit	731	1 236	1 342

[1] EBIT- Earnings Before Interest & Taxes

WACC change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Valuation (PLN thousand)	12 003	13 643	14 592	15 644	16 819	18 138	21 330
change %	-23,3%	-12,8%	-6,7%		7,5%	15,9%	36,3%
change (PLN thousand)	-3 641	-2 001	-1 053		1 175	2 494	5 686

g change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
g value	4,0%	3,0%	2,5%	2,0%	1,5%	1,0%	0,0%
Valuation (PLN thousand)	27 945	20 094	17 599	15 644	14 072	12 780	10 781
change %	78,6%	28,4%	12,5%		-10,1%	-18,3%	-31,1%
change (PLN thousand)	12 301	4 449	1 954	0,0	-1 572	-2 865	-4 864

Docusoft valuation

Forecast period	Plan. Execution 0	Forecast 1	2	3
Forecast year		2019	2020	2021
CF		607	824	1 093
interest expenses + tax adjustment		37	38	43
return of debts		0	-50	-100
new debts		50	100	200
dividend		0	0	0
FCFE		694	912	1 235
FCFF		657	874	1 193
FCFF		657	874	1 193
DCF		582	685	827

(PLN million)	
The current value of free cash flows FCFF	2 093
Residual value	12 919
Current residual value	8 954
Gross value of the company	11 047
Net debt	1 332

Income value	9 715
Value of Arcus share	8 448

Financial projections 3y: 2019-2021

(PLN)	2019	2020	2021
Revenues - total	1 520	1 800	2 080
Costs - total	963	1 149	1 305
EBIT(1)	557	651	775
Net profit	501	595	718

(1) EBIT- Earnings Before Interest & Taxes

WACC change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Valuation (PLN thousand)	7 667	8 591	9 124	9 715	10 375	11 114	12 902
change %	-21,1%	-11,6%	-6,1%		6,8%	14,4%	32,8%
change (PLN thousand)	-2 048	-1 125	-591		659	1 399	3 186

g change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
g value	4,0%	3,0%	2,5%		1,5%	1,0%	0,0%
Valuation (PLN thousand)	16 562	12 192	10 803	9 715	8 840	8 121	7 008
change %	70,5%	25,5%	11,2%		-9,0%	-16,4%	-27,9%
change (PLN thousand)	6 846	2 476	1 088	0,0	-875	-1 594	-2 707

Geotik valuation

Forecast year	2019	2020	2021
CF	-3	1 370	1 980
interest expenses + tax adjustment	26	-10	6
return of debts	0	0	-300
new debts	0	300	800
dividend	0	0	0
FCFE	23	1 660	2 486
FCFF	-3	1 670	2 480
FCFF	-3	1 670	2 480
DCF	-3	1 297	1 696

(PLN million)	
The current value of free cash flows FCFF	2 989
Residual value	18 305
Current residual value	12 517
Gross value of the company	15 506

Net debt	0
Income value	**15 506**
Value of Arcus share	10 493

Financial projections 3y: 2019-2021

(PLN)	2019	2020	2021
Revenues - total	4 685,2	7 251,2	9 477,3
Costs - total	4 315,1	5 645,6	7 159,0
EBIT[1]	370,1	1 605,7	2 318,4
Net profit	345,2	1 507,7	2 179,1

[1] EBIT- Earnings Before Interest & Taxes

WACC change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Valuation (PLN thousand)	13 208	14 276	14 869	15 506	16 193	16 936	18 618
change %	-14,8%	-7,9%	-4,1%		4,4%	9,2%	20,1%
change (PLN thousand)	-2 298	-1 230	-637		687	1 430	3 112

g change	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
g value	2,0%	1,0%	0,5%		-0,5%	-1,0%	-2,0%
Valuation (PLN thousand)	20 749	17 674	16 503	15 506	14 646	13 896	12 653
change %	33,8%	14,0%	6,4%		-5,5%	-10,4%	-18,4%
change (PLN thousand)	5 243	2 168	997	0	-860	-1 610	-2 853

Weighted Average Cost of Capital

Risk-free rate (yield on 10-year Treasury bonds)	2,7%	2,7%	2,7%	2,7%
Risk premium on the market	6,0%	6,0%	6,0%	6,0%
Specific risk premium	4,0%	4,0%	4,0%	4,0%
Tax rate	19,0%	19,0%	19,0%	19,0%
Beta	1,32	1,25	1,21	1,18
Credit margin	4,5%	4,5%	4,5%	4,5%
Cost of debt in Arcus Group	7,2%	7,2%	7,2%	7,2%
Cost of debt for external funds	10,2%	10,2%	10,2%	10,2%
Share of debt in Arcus Group	100,0%	100,0%	100,0%	100,0%
Share of debt for external funds	0,0%	0,0%	0,0%	0,0%
Average cost of debt	7,20%	7,20%	7,20%	7,20%
After-tax cost of debt	5,83%	5,83%	5,83%	5,83%
Cost of equity	14,62%	14,21%	13,95%	13,76%
Ud	28,3%	23,7%	20,4%	18,0%
Ue	71,7%	76,3%	79,6%	82,0%
WACC	12,13%	12,22%	12,29%	12,34%
Number of days in the reporting period	365,00	365,00	365,00	365,00
Discount rate	1,12	1,26	1,41	1,59

Beta coefficient calculation				
Unlevered beta	1,00	1,00	1,00	1,00
Debt/Equity	0,39	0,31	0,26	0,22
Levered beta	1,32	1,25	1,21	1,18
	2018	**2019**	**2020**	**2021**
WACC	12,1%	12,2%	12,3%	12,3%

5.6 Inventory

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

5.7 Trade and other receivables

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

5.8 Impairment losses on assets

At each balance sheet date, the Group's companies review the carrying value of assets to determine whether there are indications of possible impairment loss. In the event that any such indication exists, the recoverable value of the asset is estimated in order to determine the potential impairment loss. Where the asset does not generate cash flows that are largely independent of cash flows generated by other assets, the analysis is performed for a group of assets generating cash flows to which the given asset belongs. The recoverable amount is the higher of the two values, namely: the fair value less costs of sales or value in use, which corresponds to the value of estimated future cash flows discounted using a discount rate that reflects current market time value of money and the specific risks, if such exists for a given asset. If the recoverable amount is lower than the net book value of the asset or group of assets, the book value is reduced to recoverable amount. The loss resulting from this fact is recognized as an expense in the period in which the impairment loss occurred.

In the case of impairment loss reversal, the net value of the asset is increased to the new estimated recoverable value, but not higher than the net value of the asset that would be determined if the impairment loss would have not been recognized in previous periods. Reversal of impairment loss is recognized as an adjustment to the costs of the period in which the indications of impairment ceased. Impairment loss on goodwill is not subject to reversal.

5.9 Cash and cash equivalents

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

5.10 Equity

5.10.1 Share capital

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

5.10.2 Share premium

In the second half of 2007, ARCUS S.A. issued B-series shares. The issue price per share was PLN 17. As a result of the issue, 2 296 681 shares were subscribed for. The share premium amounted to PLN 37.630.700,57.

5.10.3 Revaluation reserve

At the end of the reporting period, this item includes a negative amount of PLN 7,364 thousand representing the total value of goodwill of a subsidiary undertaking - T-Matic System (PLN 3,029 thousand) and a negative value of equity attributable to non-controlling interests in T-Matic System (PLN 4,335 thousand) in connection with the finalised process of acquisition of this Company by ARCUS S.A. (see current reports regarding the merger - 3/2019 and 5/2019).

5.10.4 Retained earnings

Retained earnings include earnings retained in the Group’s Companies by the shareholders' decision and the Group's result for a given period attributable to the shareholders of the parent entity, as well as the possible effects of errors in previous years.

5.11 Loans and credit facilities

Loans and credit facilities are recognized together with interests due. Exceptions are overdrafts for which no repayment schedule is set. For this type of loan, the costs associated with its disbursement and other fees shall be charged to financial expenses in the period they are incurred.

In other cases, financial expenses, including commissions paid at the time of repayment or redemption and direct borrowing costs, are recognized in the profit and loss account using the amortized cost and increase the book value of the instrument with consideration of the repayments made in the current period.

5.12 Trade and other liabilities

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

5.13 Reserves and provisions

Reserves and provisions are created when the Company has an existing legal or constructive obligation resulting from past events and it is probable that fulfillment of this obligation will result in the outflow of resources embodying economic benefits and a reliable estimate of the amount of the obligation can be made but the final amount or the maturity of this obligation are uncertain. Where the impact of the time value of money is material, the amount of the provision is determined by discounting the projected future cash flows to the present value, using a discount rate reflecting current market assessments of the value of money and risks associated with the obligation. Increases in reserves based on the discount rate method, are recognized as borrowing costs over time. If the Group expects that the costs covered by the provision will be recovered in any way, such reimbursement is recognized as a separate asset but only when it is certain that the cost will be recovered. Provisions for warranty costs are recognized upon the sale of products in accordance with the Management's best estimate of future costs to be incurred by the Group during the warranty period. The warranty period granted by the Group’s companies for their products does not exceed 12 months. The amount of the provisions is estimated at each balance sheet date based on historical data on the costs of warranty repairs. Provisions for specific risks are created when there is a probable outflow of economic benefits from the entity, and the estimate can be reliably carried out.

As far as employee benefits are concerned, Group’s companies are not parties to any wage agreements or collective agreements. Group’s companies also do not have pension schemes directly managed by companies or by external funds. The costs of employee benefits include remuneration paid in accordance with the terms and conditions of employment contracts with individual employees. Liabilities arising from short-term employee benefits are measured on a general basis. Short-term and long-term liabilities due to retirement, disability and post-mortem benefits are estimated on the basis of actuarial methods. Actuarial gains and losses were not presented in the report, due to their immateriality.

5.14 Foreign currency transactions

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

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

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

5.15 Lease

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

5.16 Statement of comprehensive income

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

5.17 Profit and loss account

Costs in the profit and loss account are disclosed by function. Profit or loss is the total amount resulting from the deduction of costs from revenues, excluding the components of other comprehensive income.

5.18 Revenues

Sales revenues are recognized at the value of payments received or due for goods delivered or services provided within the normal course of business. Revenues shall be reduced by granted rebates; taxes in favor of third parties are not recognized as income. The sale of goods is recognized upon the delivery of goods and the transfer to the recipient of the significant risk associated with the delivery. Revenues from services are determined after the service is provided, and include the costs associated with the provision of the service. Revenues related to long-term contracts (over 6 months) are recognized as revenues and expenses correspondingly to the stage of completion of the agreement at the end of the reporting period.

Other operating income and expenses. Other operating income includes among others: profit from the sale of tangible fixed assets, received compensations related to losses on the insured property, or subsidies received as part of the EU programs (staff trainings and IT system implementation).

5.19 Financial revenues and borrowing costs

Financial revenues include: dividend income, interests on deposits and loans, foreign exchange gains, etc. Interest income is recognized cumulatively in relation to the principal due, in accordance with the effective interest method. Dividend income is recognized when the shareholder's right to receive payment is determined. Financial costs include: costs of the use of external financing that is credit interests, interests payable on finance lease agreements, foreign exchange losses.

Borrowing costs are recognized as an expense in the profit and loss account in the period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, affect its initial value as part of the purchase price or production cost. These costs are subject to capitalization if it is probable that they will result in the future economic benefits for the entity, and the amount of these costs may be reliably determined.

5.20 Income tax

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

6 REVENUES AND RESULTS OF OPERATING SEGMNENTS

6.1 Operating segments

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

- IT segment covering sales and leasing of copying devices and equipment for mail and document lifecycle management (office solutions),
- Telematics segment, covering monitoring of vehicle fleets,
- Telemetry segment covering the sales, installation and commissioning of equipment for the measurement of utilities such as electricity, gas and water,
- service segment covering including after-sales services, repair, and lease services.

Operating segments for the period from 01.01 to 31.12.2018

	IT Segment	Telematics Segment	Telemetry segment	Other services Segment	Total
Sales to external clients	106 194	3 844	1 425	26 918	138 381
Sales between segments	-				
Total segment's revenues	106 194	3 844	1 425	26 918	138 381
Segment's result	**9 239**	**44**	**-377**	**-931**	7 975
Unassigned costs					-6 220
Profit on operating activities					1 755
Net financial revenues					-1 635
Profit before tax					120
Income tax					-157
Net profit for the financial year					-37
Assets and liabilities					
Segment's assets	**65 790**	**2 381**	**883**	**16 676**	**85 730**
Unassigned assets	-	0		-	17 833
Total assets					103 563
Segment's liabilities	**43 037**	**1 558**	**578**	**10 909**	**56 082**
Unassigned liabilities	-	-		-	47 481
Total liabilities					103 563

Operating segments for the period from 01.01 to 31.12.2017

	IT Segment	Telematics Segment	Telemetry segment	Other services Segment	Total
Sales to external clients	107 242	3 800	368	30 266	141 676
Sales between segments	-				
Total segment's revenues	107 242	3 800	368	30 266	141 676
Segment's result	**13 050**	**-425**	**-302**	**-938**	11 385
Unassigned costs					-7 793
Profit on operating activities					3 592
Net financial revenues					522
Profit before tax					4 114
Income tax					-3 711
Net profit for the financial year					403
Assets and liabilities					
Segment's assets	**72 090**	**2 671**	**71**	**19 483**	**94 315**
Unassigned assets				-	20 063
Total assets					114 378
Segment's liabilities	**48 664**	**1 803**	**48**	**13 152**	**63 667**
Unassigned liabilities				-	50 711
Total liabilities					114 378

Other information on segments - Geographical information

Sales revenues	year ended 31.12.2018	year ended 31.12.2017
Domestic sales	136 013	139 823
Foreign sales	2 368	1 853
Total	138 381	141 676

As at the end of the reporting period and the comparable period, the Group's assets were located mainly in Poland.

7 REVENUES STRUCTURE

Consolidated sales revenues

Sales revenues	year ended 31.12.2018	year ended 31.12.2017
Revenues from sales of services	38 404	37 963
Revenues from sales of goods	99 977	103 713
Total sales revenues	138 381	141 676

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

8 COSTS BY NATURE

	year ended 31.12.2018	year ended 31.12.2017
Value of goods sold	72 047	74 311
Third-party services	19 170	18 673
Remunerations and employee benefits	23 174	25 225
Consumption of materials and energy	16 035	14 499
Taxes and fees	1 274	1 468
Amortisation and depreciation	3 371	2 973
Other sundry expenses	2 093	1 883
Total	137 164	139 032
Costs of operating activities	137 164	139 032
Sales costs	24 672	22 501
General and administrative costs	11 866	12 199
Direct cost of sales	100 626	104 333

9 OTHER OPERATING REVENUES

Other operating revenues	year ended 31.12.2018	year ended 31.12.2017
Profit from the sales of fixed assets	377	6
Received damages	124	513
Subsidies received		149
Other	388	696
Total	889	1 364

10 OTHER OPERATING COSTS

Other operating costs	year ended 31.12.2018	year ended 31.12.2017
Loss on disposal of fixed assets		12
Repair costs of insured property	69	100
Revaluation of receivables and inventories	15	
Other	265	303
Total	349	415

11 FINANCIAL REVENUES

Financial revenues	year ended 31.12.2018	year ended 31.12.2017
Interests	109	57
Other - including foreign exchange rates differences	146	804
Total	255	861

12 FINANCIAL COSTS

Financial costs	year ended 31.12.2018	year ended 31.12.2017
Interest on loans	549	299
Other - including foreign exchange rates differences	1 341	40
Total	1 890	339

In the reporting period, foreign exchange differences, unlike in the comparable period, had a negative impact on the net result.

13 INCOME TAX

Income tax charge in the consolidated profit and loss account for 2018 amounts to PLN 157 thousand (deferred tax). Tax, according to nominal rate amounts to PLN 23 thousand. Higher effective taxation is caused by the write-off of assets created for a temporary difference in connection with the change in its nature to permanent and inactivation of new losses by subsidiaries.

14 PROFIT PER SHARE

Earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of the dominant company by the weighted average number of issued ordinary shares outstanding during the period. Diluted profit per share is calculated by dividing net profit for the period attributable to ordinary shareholders of the dominant company (after deducting interest on redeemable preference shares convertible into ordinary shares) by the weighted average number of ordinary shares outstanding during the period (adjusted for the effect of dilutive options and dilutive redeemable preference shares convertible into ordinary shares). As at the end of the reporting periods, no dilutive options occurred.

PROFIT PER SHARE	year ended 31.12.2018	year ended 31.12.2017
Weighted average number of shares	7 320 000	7 320 000
Net profit attributable to the shareholders of a Dominant Entity (PLN thousand)	655	1 266
Net profit per share attributable to the shareholders of a Dominant Entity	0,09	0,17
Diluted profit per share attributable to the shareholders of a Dominant Entity	0,09	0,17

15 TANGIBLE FIXED ASSETS

	As at 31.12.2018	As at 31.12.2017
Fixed assets		
Buildings and structures	142	280
Machines and devices	507	707
Means of transport	857	809
Other	860	897
Fixed assets - total	2 366	2 693
Prepayments for fixed assets	351	316
Fixed assets under construction	761	523
Fixed tangible assets	3 478	3 532

Changes in fixed assets in the period from 01.01 to 31.12.2018

	Buildings and structures	Machines and devices	Means of transport	Other	Total
Net As at 01.01.2018	280	707	809	897	2 693
Gross value					
As at 01.01.2018	889	3 150	2 894	3 152	10 085
Increase - purchase		389	601	518	1 508
Decrease - sale and liquidation		144	477	266	887
As at 31.12.2018	889	3 395	3 018	3 404	10 706
Redemption					
As at 01.01.2018	609	2 443	2 085	2 255	7 392
Increase – amortization and depreciation	138	588	416	499	1 641
Decrease - sale and liquidation		143	340	210	693
As at 31.12.2018	747	2 888	2 161	2 544	8 340
Net as at 31.12.2018	142	507	857	860	2 366

Changes in fixed assets in the period from 01.01 to 31.12.2017

	Buildings and structures	Machines and devices	Means of transport	Other	Total
Net As at 01.01.2017	435	1 406	1 376	905	4 122
Gross value					0
As at 01.01.2017	889	3 360	2 999	2 541	9 789
Increase - purchase		273	329	727	1 329
Decrease - sale and liquidation		483	434	116	1 033
As at 31.12.2017	889	3 150	2 894	3 152	10 085
Redemption					0
As at 01.01.2017	454	1 954	1 623	1 636	5 667
Increase – amortization and depreciation	155	550	561	671	1 937
Decrease - sale and liquidation		61	99	52	212
As at 31.12.2017	609	2 443	2 085	2 255	7 392
Net as at 31.12.2017	280	707	809	897	2 693

16 INTANGIBLE ASSETS

INTANGIBLE ASSETS	As at 31.12.2018	As at 31.12.2017
Software	2 540	3 199
Licenses	11	75
Other (software, expenditures on intangible assets)	3 016	2 933
Total	5 567	6 207
Advance payments for intangible assets	1 385	1 550
Total	6 952	7 757

Changes in intangible assets in the period from 01.01.2018 to 31.12.2018	Software	Licenses	Other	Total
Net as at 01.01.2018	3 199	75	2 933	6 207
Gross value				
As at 01.01.2018	5 756	2 134	5 547	13 437
Increase - purchase	529		561	1 090
Decrease - sale and liquidation				0
As at 31.12.2018	6 285	2 134	6 108	14 527
Depreciation and amortisation				
As at 01.01.2018	2 557	2 059	2 614	7 230
Increase – amortization and depreciation	1 188	64	478	1 730
Decrease - sale and liquidation				0
As at 31.12.2018	3 745	2 123	3 092	8 960
Net as at 31.12.2018	2 540	11	3 016	5 567

Changes in intangible assets in the period from 01.01.2017 to 31.12.2017	Software	Licenses	Other	Total
Net as at 01.01.2017	961,00	311	3 454	4 726
Gross value				
As at 01.01.2017	3 105,00	2 134	5 681	10 920
Increase - purchase	2 651,00	8	366	3 025
Decrease - sale and liquidation		8	500	508
As at 31.12.2017	5 756	2 134	5 547	13 437
Depreciation and amortisation				
As at 01.01.2017	2 144	1 823	2 227	6 194
Increase – amortization and depreciation	413	236	387	1 036
Decrease - sale and liquidation				0
As at 31.12.2017	2 557	2 059	2 614	7 230
Net as at 31.12.2017	3 199	75	2 933	6 207

17 GOODWILL ON CONSOLIDATION

fair value as at balance sheet date	As at 31.12.2018	As at 31.12.2017
T-matic Systems SA - goodwill	0	3 029
Docusoft Sp. z o.o. - goodwill	1 352	1 352
ASI - goodwill	4 549	4 549
Geotik - goodwill	4 896	4 896
Total	10 797	13 826

As at 31 December 2018, goodwill impairment tests were carried out (with the exception of T- Matic goodwill, as referred to below), which confirmed the values shown in the table above. In connection with the initiated process aimed at merging ARCUS S.A. with its subsidiary T-Matic Systems Sp. z o.o. (see current report presenting the merger plan - 5/2019) the goodwill of T-Matic in the amount of PLN 3,029 thousand excluded from testing was recognized in the revaluation reserve.

18 HELD-FOR-SALE FINANCIAL ASSETS

The Group does not hold any assets available for sale.

19 LONG-TERM RECEIVABLES

_Long-term trade receivables	as at 31.12.2018	as at 31.12.2017
Trade receivables from other entities *	11 149	6 262
Other receivables	71	95
Total	11 220	6 357

*) Long-term trade receivables are lease receivables.

20 INVENTORY

Inventory	as at 31.12.2018	as at 31.12.2017
Gross goods and materials	12 790	9 580
Impairment	-324	-324
Advance payments for deliveries	31	25
Total inventory	12 497	9 281

As at 31 December 2018 inventories were the collateral for a bank loan and an insurance guarantee.

21 SHORT-TERM RECEIVABLES

SHORT-TERM RECEIVABLES	As at 31.12.2018	As at 31.12.2017
Trade receivables from associates not subject to consolidation	1 001	207
Trade receivables from other entities*	33 687	52 610
Tax receivables	256	427
Other receivables	16 781	18 298
Impairment	-962	-4 606
Total	50 763	66 936

*) including short-term lease receivables

Change in impairment	as at 31.12.2018	as at 31.12.2017
Opening balance	4 606	5 986
Recognition of impairment		85
use:	3 644	1 465
repayment of receivables		356
write-offs	2 938	1 109
release	706	
Closing balance	962	4 606

22 CASH AND CASH EQUIVALENTS

Cash and cash equivalents	as at 31.12.2018	as at 31.12.2017
Cash at hand	2	
Cash in banks	1 800	1 824
Short-term deposits		
Total	1 802	1 824

23 CONSOLIDATED EQUITY

Share capital	Nominal value	Number of shares
As at 31.12.2018	0,10	7 320 000
As at 31.12.2017	0,10	7 320 000

series	number of shares	value of shares	contribution
D	7 320 000	732 000,00	cash

On 14 June 2012, the Annual General Meeting of Shareholders adopted the Resolution No 26 regarding the purchase of own shares for the purpose of their redemption in the amount of up to 10% of the share capital and at a price not exceeding 6 PLN per share. Share buyback started in September 2012 – as at 31.12.2013 the Company held 75,157 own shares purchased at an average price of 3.63 PLN. Mentioned shares accounted for 1.02% of the total capital and 1.02% of the total number of votes at the AGM. On 20 June 2013, under the Resolution No 12, the Ordinary General Meeting of Shareholders, decided to redeem the shares held by Arcus S.A. and to decrease the share capital. In accordance with Art. 456 of the Commercial Companies Code, the Company started convocation proceedings, which were completed in the 4th quarter of 2013 - no objections were raised by the creditors. On 20 June 2014, the Annual General Meeting of Shareholders, by the Resolution No 20, decided on the conversion of all existing shares of A, B and C series into D series shares, and on the basis of the Resolution No 21 on redemption of 75 157 shares, which was confirmed by the District Court in September 2014. Shareholding structure of ARCUS S.A. (according to the Company's knowledge) as at 31 December 2018:

Shareholding structure of ARCUS S.A. (according to the Company's knowledge) as at 31 December 2018		PLN	%
	Number of shares	Value of share in the share capital	Share in the share capital
MMR Invest S.A.*	4 800 000,00	480 000,00	65,6
Other	2 520 000	252 000,00	34,4
Total	**7 320 000**	**732 000,00**	**100,0**

*- entity controlled by Mr. Marek Czeredys, Michał Czeredys and Rafał Czeredys

24 SHARE PREMIUM ACCOUNT

Share premium account	as at 31.12.2018	as at 31.12.2017
Share premium account	37 631	37 631
Total	37 631	37 631

25 REVALUATION RESERVE

Revaluation reserve	as at 31.12.2018	as at 31.12.2017
Related to the initiated process of ARCUS S.A. merger with its subsidiary T-Matic	-7 364	
Total	-7 364	

At the end of the reporting period, this item includes a negative amount of PLN 7,364 thousand representing the total value of goodwill of a subsidiary undertaking - T-Matic System (PLN 3,029 thousand) and a negative value of equity attributable to non-controlling interests in T-Matic System (PLN 4,335 thousand) in connection with the finalised process of acquisition of this Company by ARCUS S.A. (see current reports regarding the merger - 3/2019 and 5/2019).

26 RETAINED EARNINGS

Retained earnings	As at 31.12.2018	As at 31.12.2017
Previous years' retained earnings	5 110	4 134
Dividend payment		-290
Profit (loss) – current period	655	1 266
Total	5 765	5 110

27 PROVISIONS FOR LIABILITIES

Provisions for liabilities	As at 31.12.2018	As at 31.12.2017
Provision for warranty repairs and other expenses	118	118
Provision for retirement benefits and unused leaves	1 079	968
Total	**1 197**	**1 086**
Including: long-term	404	340
Provision for warranty repairs and other		
Provision for retirement benefits and unused leaves	404	340

Short-term	793	746
Provision for warranty repairs and other	118	118
Provision for retirement benefits and unused leaves	675	666

The Group's companies pay out the retirement severance pay to retiring employees in the amount specified in the Labour Code. Accordingly, the Group's companies, on the basis of a valuation carried out by a professional actuarial company, recognizes a provision for the current value of the retirement severance pay. The main assumptions adopted by the actuary to calculate the amount of the liability are as follows:

	31.12.2018	31.12.2017
discount rate (%)	3,00%	3,250%
Expected remuneration growth rate (%)	3,00%	3,50%

28 LONG-TERM LIABILITIES

Long-term liabilities as at 31.12.2018 in the amount PLN 20 211 thousand (2017 – PLN 22 002 thousand) include, apart from provisions for liabilities and deferred tax, trade liabilities in the amount of PLN 13 457 thousand and lease liabilities in the amount of PLN 532 thousand recognized in other long-term liabilities.

29 TRADE AND OTHER LIABILITIES

SHORT-TERM LIABILITIES	As at 31.12.2018	As at 31.12.2017
Trade liabilities to associates not subject to consolidation	312	369
Trade liabilities to other entities *	26 301	25 311
Tax and social security liabilities	4 639	10 518
Advance payments received	142	283
Payroll liabilities	1 170	2 499
Other	1 161	3 469
Total	33 725	42 449

*) including the amount of lease liabilities – PLN 747 thousand (31.12.2017 – PLN 2 353 thousand).

30 LIABILITIES AND RECEIVABLES IN FOREIGN CURRENCIES

	Liabilities		Receivables	
	as at 31.12.2018	as at 31.12.2017	as at 31.12.2018	as at 31.12.2017
EUR	35 953	33 713	4 331	1 111
USD				
PLN	11 941	25 521	57 652	72 182
Total	47 894	59 234	61 983	73 293

31 CONTINGENT LIABILITIES

Contingent liabilities	as at 31.12.2018	as at 31.12.2017
Bill of exchange liabilities, including issued for:	23 610	24 850
Bank as a credit collateral	9 759	9 000
Insurance companies in respect of performance bond	12 884	14 803
Insurance companies in respect of guarantee for security payment	250	468
Bank guarantees	717	579

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

On 16 December 2013 (current report No 36/2013) the consortium of Arcus S.A. and T-matic System S.A. received a notification from the District Court for the City of Warsaw, 16th Commercial Division, on institution of conciliation proceedings and on summoning Arcus S.A. and T-matic System S.A. Consortium by Energa-Operator S.A. to a conciliation hearing as regards the payment to be executed by Consortium at the amount of PLN 21 513 481.31 and referring to the claims arising from contractual penalties concerning the contracts for the delivery and launching of the meter infrastructure covered by the following agreements: ZP/62/AZU/2011 of 9 September 2011, ZP/63/AZU/2011 of 26 August 2011, ZP/64/AZU/2011 of 26 August 2011 and ZP/66/AZU/2011 of 25 October 2011 being the implementing documents for the Framework Agreement, on which the Company informed in a current report No 22/2011 of 28 June 2011. The session of a Court was initially planned to be held on 30 December 2013, but was postponed until 5 March 2014, and in March 2014 – at the request of the Parties, until 20 May 2014. The request of Arcus S.A. addressed to the court for a further postponement of the hearing, supported by Energa-Operator S.A., was not accepted by the Court and the case was dismissed at the hearing on 20 May 2014. In December, Consortium received from Energa-Operator S.A. a final call for payment, while at the same time the Consortium submitted to Energa-Operator S.A. a claim for payment for additional works going beyond the scope set forth in the agreements (current report No 26/2014 of 18 December 2014). In December 2014, the Consortium received 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. Subsequently, the hearing was postponed until 18 March 2016. 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 fundamental structure defects, which indicate that the Execution Agreement is subject to a sanction of absolute nullity, due in particular to the following two groups 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 is also subject to a fundamental defect in connection with the shaping of the position of the Parties under the concluded contractual relationship, especially in the context of recognizing the delivery agreement as a protoplast of the Implementation Agreement, which translates in particular in the scope of:

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). 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 summon 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 against Energa-Operator S.A. (current report 24/2016 of 19 October 2017) 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).

In connection with the Court's decision of 13 April 2017, on 9 May 2017 ARCUS S.A. received information that the legal representative of the Issuer and T-Matic Systems S.A. filled a lawsuit with the Court of Appeals in Gdańsk, 9th Commercial Division against Energa-Operator S.A.

On 12 May 2017 a performance bond was issued under which Ergo-Hestia undertook to pay irrevocably and unconditionally, in accordance with the terms of the Guarantee, to Energa-Operator S.A. the amount of PLN 9,597,702.30 in the event of final termination to the detriment of the Issuer and T-matic Systems S.A. of the court proceedings initiated by the Issuer and T-matic against Energa with reference to the claims secured by the Decision (current report no 7/2017).

On 25 September 2017 ARCUS S.A. was notified on filling by the Issuer's legal representative for litigation purposes of a lawsuit with the Court of Appeals in Gdańsk, 9th Commercial Division against Energa-Operator S.A. with its registered office in Gdańsk on the basis of which the Issuer and T-matic Systems S.A. ("T-matic") as Claimants, pursue claims in the amount of PLN 174,111,458.96 along with the statutory interest thereon to be paid by Energa as compensation for the damage to the Claimants deriving from the tort/ an act of unfair competition committed by Energa in connection with the ongoing multi-faceted dispute concerning the validity, performance and mutual claims arising from and related to the conclusion and execution by Claimants for the benefit of Energa of performance contracts for delivery of software and the launch of meter infrastructure and contracts for the implementation of an intermediary infrastructure in the PLC technology concluded in the period from 25 September 2011 to 1 February 2013 following the award of a public procurement contract by Energa (current report 16/2017).

The Claimants puts forward the pleas alleging that Energa is liable for damages (both tortious and contractual) to Claimants with regard to the negative consequences of the actions and omissions related to the creation, escalation and failure to terminate the Dispute.

In the opinion of the Claimants, unreasonable and unlawful request of Energa (as the ordering party) for the payment of significant amounts as claims in relation to the performance of the Implementation Agreements, including charging contractual penalties and inducing by Energa to the expansion of the Dispute, as well as failure of Energa to pay of amounts due in connection with works performed, resulted in the damage to the Claimants which was related to the occurrence of circumstances which negatively affecting the business activity performed by the Claimants as well as their functioning in the economic transactions, translating into concrete property damage. On 11 December 2017 ARCUS S.A. was notified on receiving a counterclaim filled with the Court of Appeals in Gdańsk, 9th Commercial Division by Energa-Operator S.A. with its registered office in Gdańsk against the Issuer and T-matic Systems S.A. as defendants on the basis of which Energa pursues claims in the amount of PLN 157,063,142 along with statutory late payment interest (as from 2 November 2015 until the payment day) to be paid by Defendants as compensation for the alleged damage suffered by Energa in connection with conclusion and implementation by Defendants for the benefit of Energa of several performance contracts for the delivery of software and the launch of meter infrastructure concluded in the period from 25 September 2011 to 1 February 2013 (current report no 22/2017).

In response to the lawsuit filed on 7 February 2018, the legal representative of Arcus S.A. filed for the dismissal of the claim in its entirety, pointing to its groundlessness. In relation to the counterclaim, the plea of invalidity of the Implementation Agreement No. 71 was raised on the basis of the circumstances set out in the claim of 10 November 2015, i.e. due to the fact that (I) the object of the service is not precisely specified (ii) the agreement grossly violates the balance of the Parties and remains contrary to the nature / essence of the obligation and the principles of social coexistence. In opinion of ARCUS S.A., Energa did not prove the validity of the claim in terms of the actual basis and the amount of claims.

On 11 April 2019 a suit was with the Court of Appeals in Gdańsk, IX Commercial Division against Energa-Operator S.A. with its registered office in Gdańsk, under which ARCUS S.A. and T-matic Systems S.A. claim from Energa for the benefit of T-matic the payment of the amount of PLN 4,710,466.04 (with statutory interest due) on account of additional works performed by T-matic for Energa in connection with three implementation agreements (No. 62 of 9.09.2011, No. 63 of 26.08.2011 and No. 64 of 26.08.2011) for the supply of software and start-up of metering infrastructure. The claim covered by the lawsuit results from the fact that the performance of the aforementioned additional works did not fall within the material scope of the Agreements and did not include the remuneration paid to the Claimants (current report no 4/2019).

The Management Board of ARCUS S.A. holds the view that the claim of Energa Operator S.A. is unjustified, and the potential outflow of cash associated with this claim is unlikely. Taking above into consideration, no provisions in respect of afore described dispute were created as at balance sheet day.

The Management Board of Arcus S.A. emphasizes that due to the important public interest and precedential nature of the project, its intention is to settle the dispute in an amicable way.

32 CREDIT AND LEASE AGREEMENTS

Credit agreements

As at 31 December 2018, the Dominant Company had an overdraft in the amount of PLN 6 million with maturity date falling on 30 September 2019. As at the balance sheet date the amount of PLN 4.15 million was used.

In the reporting period, the Dominant Company was a party to an agreement signed in the comparable period with Kyocera Document Solutions Europe B.V. on financing deliveries in the amount of EUR 3.8 million (as at the end of the reporting period), with a security in the form of a financial guarantee granted by the majority shareholder.

As at 31 December 2018, the subsidiary company Arcus Systemy Informatyczne had an overdraft facility with the limit of PLN 1.5 million and the repayment date until 28 June 2019. As at the balance sheet date, the Company did not use the debit facility.

As at 31 December 2018, the subsidiary Docusoft had a short-term credit in the amount of PLN 0.16 million, of which PLN 0.06 million was used as at the balance sheet date.

The Dominant Company granted new loans to subsidiaries and affiliated undertakings in the amount of PLN 1.70 million.

Lease agreements

Under lease agreements concluded with leasing companies, the Group has at its disposal printing, copying and telemetry equipment, which is made available to Group's customers for further lease. Mentioned agreements meet the criteria of finance lease. As at the balance sheet date, lease liabilities amounted to PLN 1,279 thousand. These agreements are concluded for a period of 24 to 60 months.

Lease liabilities	as at 31.12.2018	as at 31.12.2017
Payable within 1 year	747	2 352
Payable within the period of 1 to 5 years	532	674
Payable within the period of over 5 years	0	0
Total	1 279	3 026

33 SUBSIDIES

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

34 TRANSACTIONS WITH ASSOCIATES

TRANSACTIONS WITH ASSOCIATES

Associate	Sale	Acquisition	Receivables	Liabilities
2018				
Rafał Kręcisz		30		
Piotr Golik	3	252		24
ADD Polska	1 248		811	
Zeccer	11	25	3	12
Marek Czeredys				336
Kancelaria Anna Zofia Czeredys	2		4	
Michał Czeredys			203	
2017				
Rafał Kręcisz	3		4	
Piotr Golik	3	218		71
Marek Czeredys				322
Michał Czeredys			203	

Transactions with associates are executed on an arm's length basis.

35 REMUNERATION

Remuneration of senior executives

	year ended 31.12.2018	year ended 31.12.2017
Management Board	1 618	2 002
Supervisory Board	457	456
Directors	4 136	4 143
Total	6 211	6 601

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

The comparative data included in this report does not differ from the data contained in the approved consolidated financial statement for 2017.

37 Employment

At 31 December 2018 Arcus Group employed 219 persons, while at the end of the comparable period - 231 persons.

38 OFF-BALANCE SHEET ITEMS

Details of the off-balance sheet liabilities are disclosed in section 31.

39 EVENTS AFTER BALANCE SHEET DATE

On 5 March 2019 an agreement for delivery, implementation and maintenance of the Office Printing System for Alior Bank S.A. with its registered office in Warsaw was concluded. The term of the agreement is 48 months and its estimated value is PLN 8 million gross.

On 9 April 2019 a resolution on the merger of ARCUS S.A. with its subsidiary T-matic Systems S.A. by transferring all the assets of the subsidiary to ARCUS S.A. was adopted. (current report no 3/2019). The merger plan was published on 15 April 2018 (current report no 5/2019).

On 11 April 2019 a suit was with the Court of Appeals in Gdańsk, IX Commercial Division against Energa-Operator S.A. with its registered office in Gdańsk, under which ARCUS S.A. and T-matic Systems S.A. claim from Energa for the benefit of T-matic the payment of the amount of PLN 4,710,466.04 on account of additional works performed by T-matic for Energa in connection with three implementation (see paragraph 31).

40 RISK MANAGEMENT

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

40.1 Foreign exchange risk

Foreign exchange risk is inherent in the nature of the business - ARCUS S.A. is an importer of goods and services (from EUR and USD zones), which are resold on the domestic market in PLN. Other Group's companies do not perform significant foreign exchange transactions. In 2018, the Company did not purchase or issue any option instruments.

40.2 Interest rate risk

The Group's companies use revolving and special-purpose bank loans based on the variable WIBOR interest rate and the added bank margin. In addition, lease agreements of which the Companies are a party to are also based on the WIBOR rate. The Group's companies do not use interest rate hedging instruments since the impact of such risk on their performance is minimal. Free cash is invested in short-term bank deposits.

40.3 Credit risk

Credit risk refers mainly to asset classes such as receivables, loans granted, cash and deposits, short-term financial assets. Customers starting cooperation with the use of merchant credit are subject to the verification procedure aimed at assessing the financial standing. Then, the arising trade receivables are subject to constant monitoring as part of the cooperation of commercial and administrative departments. A large customer base and their diversification cause the reduction of credit risk by becoming independent of a small group of significant customers.

40.4 Risk related to financial assets held

Such risk is related to the market valuation of financial assets held by the Company that are subject to periodic changes due to fluctuations in stock quotes. Risks related to estimates are described in item 4.4. "Estimates and judgments".

40.5 Risk related to liquidity

The Group's liquidity management covers the following areas: current, continuous monitoring of trade liabilities and receivables, forecasting the Company's cash flows and cash needs, active cash management. Liquidity risk is understood as the risk of losing the ability to settle liabilities within specified deadlines. The risk arises from the potential restriction of an access to financial markets or changes in the attitude of banks to grant credits, particularly in the context of an ongoing dispute with EOP, which may result in inability to obtain new financing or refinancing the debt. The Group monitors the risk of lack of cash by adapting the financing structure to the projected future cash flows and diversifying sources of financing through the use of different products such as loans, financing by suppliers or finance lease agreements. Taking above into consideration, in the opinion of the Management Board, the risk of loss of liquidity should be assessed as moderate.

41 CAPITAL MANAGEMENT

The main objective of the Group's capital management is to maintain a good credit rating and secure capital ratios that would support the Group's operating activity and increase the value for its shareholders. The Group manages the capital structure and introduces the relevant changes as a result of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may change the dividend payment to shareholders, return the capital to shareholders or issue new shares. In the year ended 31 December 2018 no changes were introduced to the objectives, principles and processes in force in this area.

The Group monitors the balance of capital. Net debt includes interest-bearing loans and borrowings, trade and other liabilities, less cash and cash equivalents.

CAPITAL MANAGEMENT	As at 31.12.2018	As at 31.12.2017
Interest-bearing credit facilities and loans	4 937	2 218
Trade and other liabilities	33 725	42 449
Less cash and cash equivalents	1 802	1 824
Net debt	36 860	42 843
Equity attributable to the shareholders of a dominant company	36 907	43 616
Net equity and debt	73 767	86 459

42 CLASSES OF FINANCIAL INSTRUMENTS

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

CLASSES OF FINANCIAL INSTRUMENTS	as at 31.12.2018		as at 31.12.2017	
	Fair value	Carrying value	Fair value	Carrying value
FINANCIAL ASSETS				
Loans granted	471	471	452	452
Trade receivables and other receivables	61 983	61 983	73 293	73 293
Cash and cash equivalents	1 802	1 802	1 824	1 824
FINANCIAL LIABILITIES				
Credit liabilities	4 937	4 937	2 218	2 218
Trade liabilities and other liabilities	47 894	47 894	59 234	59 234

Financial Statement of ARCUS Group for the year 2018 was approved for publication and signed by the Management Board of ARCUS S.A. on 26 April 2019.

Warsaw, 26 April 2019

[Electronic signature on the original version of the document]	[Electronic signature on the original version of the document]	[Electronic signature on the original version of the document]
Michał Czeredys	**Rafał Czeredys**	**Katarzyna Beata Balcerowicz**
President of the Management Board	Member of the Management Board	Financial Director Chief Accountant