

THIS DOCUMENT IS A FREE TRANSLATION OF THE POLISH ORIGINAL AND EVERY EFFORT  
HAS BEEN MADE TO ENSURE THE ACCURACY OF THIS TRANSLATION.  
THE BINDING POLISH ORIGINAL SHOULD BE REFERRED TO IN MATTERS OF INTERPRETATION

REPORT  
OF THE INDEPENDENT STATUTORY AUDITOR  
ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENT  
FOR THE PERIOD OF 1 JANUARY – 31 DECEMBER 2018

ARCUS S.A. GROUP

(the Report in the Polish original version contains 8 pages)

**Gdańsk, April 2019**

# **REPORT OF THE INDEPENDENT STATUTORY AUDITOR ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENT**

for the Supervisory Board and the Shareholders of ARCUS Spółka Akcyjna  
(*Joint Stock Company*) with its registered office in Warsaw at 5/7 Kolejowa Street

## **Report on the audit of the annual consolidated financial statement**

### **THE OPINION**

We have audited the attached annual consolidated financial statement of ARCUS S.A. Group, in which ARCUS S.A. with its registered office in Warsaw is a dominant entity, including:

- 1) consolidated statement of financial position prepared as at 31 December 2018 with total assets and liabilities of PLN 103.564 thousand;
- 2) consolidated profit and loss account and consolidated statement of comprehensive income prepared for the period from 1 January 2018 to 31 December 2018 with a net loss and comprehensive income in the amount of PLN -37 thousand;
- 3) consolidated statement of changes in equity prepared for the period from 1 January 2018 to 31 December 2018 indicating a decrease in equity by the amount of PLN 3.065 thousand;
- 4) consolidated statement of cash flows prepared for the period from 1 January 2018 to 31 December 2018 indicating a decrease in cash by PLN -22 thousand;
- 5) description of significant accounting principles (policy) as well as additional and explanatory information.

In our opinion, the accompanying consolidated financial statement gives a true and fair view of the consolidated financial position of ARCUS S.A. Group as at 31 December 2018 and its consolidated financial result and consolidated cash flows for the financial year from 1 January 2018 to 31 December 2018, in accordance with the applicable International Financial Reporting Standards approved by the European Union and the adopted accounting principles (policy); and is consistent in form and content with the applicable laws and the Dominant Entity's Articles of Association;

This opinion is consistent with the additional report for the Audit Committee issued by us on 26 April 2019.

### **Basis for the opinion**

Our audit was conducted in accordance with the National Auditing Standards in the wording of the International Auditing Standards as adopted by the resolutions of the National Council of Statutory Auditors No. 2039/37a/2018 of 19 February 2018 on national auditing standards (700 (Z), 701, 705 (Z), 706 (Z), 720 (Z), 260 (Z), 570 (Z)) and 2041/37a/2018 of 5 March 2018 on

national professional standards (“NPS”) and pursuant to the provisions of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision (“Act on Statutory Auditors” - Journal of Laws of 2017, item 1089 as amended) and the EU Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (“EU Regulation” - Official Journal of the European Union L158). Our responsibility according to these standards is further described in the section of this report *Responsibility of the statutory auditor for the audit of the consolidated financial statement*.

We are independent of the Group’s companies in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants (‘IFAC Code’) adopted by the resolution of the National Council of Statutory Auditors No. 2042/38/2018 of 13 March 2018 on the professional ethics of statutory auditors and in line with other ethical requirements applicable to the audit of financial statements in Poland. We have fulfilled our other ethical obligations in accordance with these guidelines and the IFAC Code. In the course of the audit, the key statutory auditor and the audit firm remained independent of the Company in compliance with the independence criteria set out in the Act on Statutory Auditors and the EU Regulation.

We believe that the audit evidence obtained by us provides a sufficient and appropriate basis for our audit opinion.

### **Explanatory paragraph**

Without qualifying the audited financial statement, we draw attention to matters presented in explanatory note no 31 to the presented consolidated financial statement of ARCUS S.A. Group. In accordance with information disclosed therein, ARCUS S.A. and its subsidiary – T-matic Systems S.A. (“TS”) are the parties to the court dispute with Energa-Operator (“EOP”) as regards the execution of contracts for the delivery of metering infrastructure, intermediate infrastructure and delivery and monitoring of vehicles based on GPS.

In December 2014, ARCUS S.A. and T-Matic Systems S.A. filed with the court a request for initiation of conciliation proceedings and calling on EOP to make a settlement attempt regarding the payment by EOP to T-matic Systems S.A. the amount of PLN 4.7 million for additional works performed under the execution contracts. In April 2015, ARCUS S.A. and T-Matic Systems S.A., jointly and severally, received from EOP a claim for payment of the contractual penalty in the amount of PLN 23.1 million for the delay in execution of the contracts. In November 2015, EOP informed ARCUS S.A. on calculation of contractual penalties in the total amount of PLN 157 million for the delay in execution of the agreement. ARCUS S.A. and T-Matic Systems S.A., jointly and severally, have a performance bond granted by insurer ERGO Hestia S.A. for the benefit of EOP up to the amount of PLN 9.6 million which can be used in the event of an unfavorable settlement of the dispute. The parties are entitled to 50% of the security. In November 2015, ARCUS S.A. and T-matic Systems S.A. filed a lawsuit with the Court to determine the validity of agreements concluded with EOP. In September 2017, ARCUS S.A. filed a claim against EOP for the payment of PLN 174 million as compensation for damages. In April 2019, ARCUS S.A. and

T-Matic Systems S.A. filed a lawsuit against EOP for the payment of PLN 4.7 million for additional works performed by T-Matic Systems S.A. under execution agreements.

In opinion of the Management Board of ARCUS S.A., penalties claimed by EOP are unjustified and shall not be awarded by the court. The litigation described above is multi-threaded and as at the date of preparation of the financial statement, it is not possible to determine the future results and the closing date of the dispute. Consequently, ARCUS S.A. did not create provisions for potential negative settlement of this court dispute. However, such negative results cannot be excluded.

In addition, we point out that the estimates made by the Management Board of Arcus S.A. in connection with the financial forecasts for the needs of carrying out the impairment tests of values referring to goodwill recognized in assets (notes 5.5 and 17) were based on expected, future cash flows, which are uncertain and dependent on future events. The total value of goodwill recognized in the consolidated financial statement and being subject to impairment loss amounts to PLN 10.8 million.

### Key audit matters

In the course of our audit we identified the below described most significant risks of material misstatement, including due to fraud, and we have developed appropriate audit procedures referring to those risks. Where we considered it to be relevant to gaining an understanding of the nature of the identified risk and to the audit procedures performed, we also included key observations arising with respect to those risks.

Description of the nature of the risk of material misstatement	Audit procedures applied and key observations arising with respect to identified risks
<p><u>Valuation of goodwill</u>, which carrying amount is PLN 10.8 million which accounts for 10% of the balance sheet's assets (notes 5.5 and 17).</p> <p>Confirmation of the correctness of the valuation of these balance sheet items are impairment tests. These tests were based on estimates of future, expected cash flows, which already assumes uncertainty regarding their implementation.</p>	<p>As part of the audit, we conducted an assessment of the feasibility of the assumptions made in the impairment tests of goodwill.</p> <p>Procedures applied:</p> <ul style="list-style-type: none"> <li>• analysis of the financial position of subsidiary undertakings,</li> <li>• comparison of the balance sheet valuation with the value of net assets and income valuation,</li> <li>• conclusions from the audit of financial statements of subsidiary undertakings in the context of possible threats to continuation or limitation of operations,</li> </ul>

	<ul style="list-style-type: none"> <li>• analysis of available financial projections of subsidiary undertakings and their strategies.</li> </ul> <p>As a result of the procedures performed, based on the collected audit documentation, we recognized that there is uncertainty in this area related to the adopted cash flow assumptions.</p>
<p>Risk related to the ongoing court dispute with Energa Operator S.A. regarding the performance of contracts described in note 31 to the financial statement.</p>	<p>As part of the audit of the correctness of determination of possible provisions for the risk related to this dispute:</p> <ul style="list-style-type: none"> <li>• we read the legal documents associated with pending court proceedings,</li> <li>• we got acquainted with the position of the Company's Management in this matter by holding talks with the Management Board and persons responsible for the pending proceedings,</li> <li>• we have obtained legal opinions regarding these proceedings.</li> </ul> <p>As a result of the audit procedures we have carried out, we decided to introduce additional explanation to this opinion.</p>

### **Responsibility of the Management and Supervisory Boards for the preparation of the consolidated financial statement**

The Management Board of the Dominant Entity is responsible for the preparation of the annual consolidated financial statement that gives a true and fair view of the financial position, financial performance and cash flows of the Group in accordance with the International Financial Reporting Standards approved by the European Union, adopted accounting principles (policy), legal regulations and the Dominant Entity's Articles of Association. The Dominant Entity's Management Board is also responsible for such internal control as the Management Board deems to be necessary for the preparation of consolidated financial statement that is free from material misstatements, whether due to fraud or error.

In the preparation of the consolidated financial statement, the Dominant Entity's Management Board is responsible for assessing the Group's ability to continue as a going concern, for disclosing, where applicable, any matters relating to continuation as a going concern, and for the application of the going concern as a basis of the accounting policy, except where the Management Board either intends to liquidate the Group or to discontinue operations or has no viable alternative to liquidation or discontinuation of operations.

The Dominant Entity's Management Board and the members of the Dominant Entity's Supervisory Board are responsible for ensuring that the consolidated financial statement meets the

requirements set forth in the Accounting Act of 29 September 1994 (“The Accounting Act”, Journal of Laws of 2018, item 395 as amended). The members of the Dominant Entity’s Supervisory Board are responsible for supervising the financial reporting process.

### **Responsibility of the statutory auditor**

The objective of the audit is to obtain reasonable assurance as to whether the consolidated financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the National Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial statement.

The scope of the audit does not include any assurance as to future profitability of the Group or the effectiveness and efficiency of the management of the Group by the Dominant Entity’s Management Board either at present or in the future.

In our audit performed in accordance with the National Auditing Standards, we apply professional judgment as well as observe professional scepticism and:

- identify and assess risks of material misstatements of the consolidated financial statement due to fraud or error, design and conduct audit procedures addressing such risks, and obtain audit evidence which provides a sufficient and adequate basis to express our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve collusion, forgery, deliberate omission, misleading action or circumvention of internal control;
- gain an understanding of internal controls adequate to the audit in order to design audit procedures that are appropriate in the circumstances but not to issue an opinion on the effectiveness of the Group’s internal controls;
- evaluate the appropriateness of accounting principles (policies) applied and the reasonableness of accounting estimates and related disclosures made by the Dominant Entity’s Management Board;
- draw a conclusion concerning the suitability of the application by the Dominant Entity’s Management Board of the going concern as a basis of the accounting policy and, based on audit evidence, whether there is material uncertainty as to events and conditions, which could put in material doubt the Group’s ability to continue as a going concern. If we conclude that there is material uncertainty, we are required to draw attention in our auditor’s report to related disclosures in the consolidated financial statements or, if such disclosures are inadequate, we modify our opinion. Our conclusions are based on audit evidence obtained by the date of our audit report, however, future events or conditions may cause the Group to discontinue its operations;

- assess the general presentation, structure and content of the consolidated financial statement, including disclosures, and whether the consolidated financial statement presents the underlying transactions and events in a way ensuring a fair presentation;
- obtain sufficient audit evidence in relation to the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statement. We are responsible for the management, supervision and performance of the Group's audit and we remain solely responsible for our audit opinion.

We notify the Dominant Entity's Supervisory Board among others of the planned scope and timing of the audit and material audit findings, including any material weaknesses of internal control identified during the audit.

We represent to the Dominant Entity's Supervisory Board that we comply with all applicable ethical standards of independence and that we will notify them of any relations and other matters which could be rationally considered a threat to our independence and, where applicable, of security measures used.

Among the matters reported to the Dominant Entity's Supervisory Board, we identified those matters that were most significant during the audit of the consolidated financial statement for the current reporting period and therefore we considered them as key audit matters. We describe such matters in our auditor's report unless their public disclosure is not permitted by law or regulations or where we determine under special circumstances that a matter should not be presented in our report because adverse consequences are reasonably expected to outweigh the benefits of such information for public interest.

### **Other information, including the report on business activities**

Other information includes the report on business activities of the Group for the financial year ended 31 December 2018 ("the Report on business activities") together with a statement of compliance with corporate governance rules referred to in Article 49b(1) of the Accounting Act, which are separate parts of this Report, and the Annual Report for the financial year ended 31 December 2018 ("Annual Report") (hereinafter referred to as "Other Information").

### **Responsibility of the Dominant Entity's Management Board and the Supervisory Board**

The Dominant Entity's Management Board is responsible for the preparation of Other Information according to the law.

The Dominant Entity's Management Board and the members of the Dominant Entity's Supervisory Board are responsible for ensuring that the Report on business activities of the Group and its separate parts meet the requirements of the Accounting Act.

## **Responsibility of the auditor**

Our opinion from the audit of the consolidated financial statement does not cover the Other Information. In connection with the audit of the consolidated financial statement, it is our responsibility to read Other Information and, in doing so, to consider whether Other Information is not materially inconsistent with the consolidated financial statements or our knowledge gained during the audit, or otherwise seem materially misstated. If we identify material misstatement in Other Information on the basis of our work, we are required to report it in our auditor's report. It is our responsibility to issue an opinion, in accordance with the requirements of the Act on Auditors, whether the Report on business activities of the Group has been prepared according to the regulations and whether it is consistent with the information contained in the financial consolidated statements. Furthermore, it is our responsibility to issue an opinion whether the Group's statement of compliance with corporate governance rules contains the required information.

We received the Report on business activities of the Group before the date of this auditor's report; the Annual Report will be available after that date. If we identify any material misstatement in the Annual Report, we are required to report it to the Dominant Entity's Supervisory Board.

## **Opinion on the Report on business activities**

On the basis of our audit work, in our opinion, the Report on business activities of the Group:

- has been prepared in accordance with Article 49 of the Accounting Act and § 71 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent ("the Regulation on Current Information", Journal of Laws of 2014, item 133);
- is consistent with the information contained in the consolidated financial statement.

Furthermore, in the light of knowledge of the Group and its environment gained during our audit, we represent that we have identified no material misstatement in the Report on business activities of the Group.

## **Opinion on the statement of compliance with corporate governance rules**

In our opinion, the Group's statement of compliance with corporate governance rules contains the information set forth in § 91 subparagraph 5 point 4 a, b, g, j, k and l of the Regulation on Current Information. Furthermore, in our opinion, the information indicated in § 91 subparagraph 5 point 5 point 4 c-f and i of this Regulation contained in the statement of compliance with corporate governance rules is consistent with the applicable regulations and with information contained in the consolidated financial statement.



## **Report on other legal and regulatory requirements**

### **Report on non-audit services provided**

To the best of our knowledge and belief, we declare that we have not provided any non-audit services.

#### *Appointment of the audit firm*

We were appointed to audit the Company's consolidated financial statement by way of the Company's Supervisory Board's Resolution of 10 October 2017. We carry out the audit of the Company's financial statements for the second time.

Key statutory auditor:

#### **Zygmunt Cichocki**

entered in the register of statutory auditors under the number 9896

Audit firm entered in the list of entities authorised to audit financial statement under the number 913:

#### **DORADCA Auditors Sp. z o.o.**

80-266 Gdańsk, 212 Grunwaldzka Street

Gdańsk, 26 April 2019

**Zygmunt Cichocki**

**[Electronic signature on the original version of the document]**