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REPORT  
OF THE INDEPENDENT STATUTORY AUDITOR  
ON THE AUDIT OF THE FINANCIAL STATEMENT  
FOR THE PERIOD OF 1 JANUARY – 31 DECEMBER 2018  
ARCUS S.A.

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

**Gdańsk, April 2019**

## **REPORT OF THE INDEPENDENT STATUTORY AUDITOR ON THE AUDIT OF THE 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 financial statement**

#### **THE OPINION**

We have audited the attached financial statement of ARCUS S.A. (hereinafter ‘the Company’) with its registered office in Warsaw, including:

- 1) statement of financial position prepared as at 31 December 2018 with total assets and liabilities of PLN 103.254 thousand;
- 2) profit and loss account and statement of comprehensive income prepared for the period from 1 January 2018 to 31 December 2018 with a net profit and comprehensive income in the amount of PLN 1.701 thousand;
- 3) 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 16.698 thousand;
- 4) statement of cash flows prepared for the period from 1 January 2018 to 31 December 2018 indicating a decrease in cash by PLN 313 thousand;
- 5) description of significant accounting principles (policy) as well as additional and explanatory information.

In our opinion, the accompanying annual financial statement:

- gives a true and fair view of the financial position of ARCUS S.A. as at 31 December 2018 and its financial result 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);
- is consistent in form and content with the applicable laws and the Company's Articles of Association;
- has been prepared on the basis of accounting records maintained properly pursuant to the provisions of Chapter 2 of the Accounting Act.

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

#### **Basis for the opinion**

We conducted our audit in accordance with the International Standards of Auditing in the wording adopted as the National Standards of Auditing by the National Council of Statutory Auditors and in line with 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 financial statement*.

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants (“IFAC Code”) adopted by resolutions of the National Council 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 financial statement of ARCUS S.A. 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 shares and participating interests in subsidiaries (note 3.5.3) were based on expected, future cash flows, which are uncertain and dependent on future events. The total value of shares and participating interests held in subsidiaries amounts to PLN 22.1 million. The Company as the dominant entity prepares consolidated financial statements.

### Key audit matters

Key audit matters are those that we believe were most significant in our professional judgement when auditing the financial statement for the current reporting period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement caused by fraud. We have addressed these matters in the context of our audit of the financial statement as a whole and when formulating our opinion and then summarised our reaction to these types of risks and, where we considered it appropriate, we provided key findings relating to these types of risks. We do not express a separate opinion on these matters.

<b>Key audit matter</b>	<b>How our audit addressed this matter</b>
<p><u>Valuation of long-term investments</u> – shares and participating interests of subsidiary undertakings, which carrying value amounts to PLN 22,141 thousand which accounts for 21% of balance sheet assets.</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 in terms of their implementation (note 3.5.3).</p>	<p>As part of the audit, we conducted an assessment of the feasibility of the assumptions made in the impairment tests of subsidiary undertakings.</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> <li>• analysis of available financial projections of subsidiary undertakings and their strategies.</li> </ul>

	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.
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>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 financial statement**

The purpose of the audit is to obtain reasonable assurance about whether the 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 Standards of Auditing will always detect an existing material misstatement. 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 financial statement. The scope of the audit does not include assurances as to the future profitability of the Company or the effectiveness or efficiency of the management of its business by the Management Board of the Company at present or in the future.

During the audit complying with the National Standards of Auditing we apply professional judgement and maintain professional scepticism, as well as:

- identify and assess the risks of material misstatement of financial statement arising from fraud or error, plan and perform audit procedures that are appropriate in addressing those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of failure to detect a material misstatement resulting from fraud is higher

than that resulting from error because fraud may involve collusion, forgery, intentional omissions, misrepresentation or circumvention of internal control;

- we obtain an understanding of internal control applied for the audit needs and plan audit procedures that are appropriate in specific circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we assess the appropriateness of the applied accounting principles (policy) and the reasonableness of accounting estimates and related disclosures made by the Management Board of the Company;
- we draw a conclusion as to the appropriateness of applying the going concern principle by the Company's Management Board as the basis for accounting and, based on the evidence obtained, as to whether there is material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that there is material uncertainty, we are required to draw the attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on audit evidence obtained up to the date of our auditor's report, however, future events or conditions may cause the Company to discontinue as a going concern;
- we assess the overall presentation, structure and content of the financial statement, including disclosures, and whether the financial statement presents underlying transactions and events in a manner that gives a true and fair view.

We provide the Supervisory Board with information about, inter alia, the planned scope and timing of the audit and the significant findings of the audit, including any material weaknesses of the internal control that we identify during the audit.

We declare to Members of the Supervisory Board that we have complied with the relevant ethical requirements in terms of independence and that we will keep them informed of all relationships and other matters that could reasonably be considered to pose a threat to our independence and, where applicable, we will inform them of the safeguards applied.

Among the matters submitted to the Supervisory Board, we identified those which were most significant during the audit of the financial statement for the current reporting period and therefore we considered them as key audit matters. We describe these matters in our audit report unless the law or regulations prohibit such disclosure or if, in exceptional circumstances, we determine that the matter should not be presented in our report because it would be reasonable to expect that the adverse consequences would outweigh the benefits of such information for the public interest.

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

Other information consists of the report on the Company's business activities for the financial year ended on 31 December 2018 ("Report on business activities") together with a statement on compliance with corporate governance rules, which are separate parts of this Financial Statement (hereinafter referred to as "Other information").

### Responsibility of the Management and Supervisory Boards

The Company's Management Board is responsible for the preparation of Other Information in accordance with the applicable laws. The Company's Management Board and members of the Supervisory Board are obliged to ensure that the Report on the Company's business activities along with the separated parts complies with the requirements provided for in the Accounting Act.

### Responsibility of a certified auditor

Our opinion on the audit of the financial statements does not cover Other information. In connection with an audit of the financial statement, it is our responsibility to review the Other information and, in so doing, to consider whether the Other information is not materially inconsistent with the financial statement or our audit knowledge or otherwise appears to be materially misstated. If, on the basis of our work, we identify material misstatements in Other Information, we are required to disclose such information in our audit report. Our responsibility under the requirements of the Act on Statutory Auditors is also to express an opinion as to whether the report on the Company's business activities was prepared in accordance with the applicable regulations and whether it is consistent with the information contained in the financial statements. In addition, we are obliged to disclose whether the Company has prepared a statement on non-financial information and to give an opinion on whether the Company has included the required information in the statement on compliance with corporate governance rules.

We have obtained the Company's report on business activities before the date of this audit report while the Annual Report will be available after that date. In the event that a material misstatement is found in the Annual Report, we are obliged to inform the Company's Supervisory Board of such misstatement.

### Opinion on the report on business activities

On the basis of the works performed during the audit, in our opinion, the report on the Company's business activities:

- was prepared in accordance with Art. 49 of the Accounting Act and Par. 70 of the Regulation of the Minister of Finance of 29 March 2018 on current and interim 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 ("Regulation on current information" - Journal of Laws of 2018, item 757);

- is consistent with the information contained in the financial statement.

Furthermore, in the light of the knowledge of the Company and its environment obtained during our audit, we declare that we have not found any material misstatements in the Report on the Company's business activities.

Opinion on the statement on compliance with corporate governance rules

In our opinion, in the statement on compliance with corporate governance rules, the Company included the information stipulated in paragraph 91(5)(4) items a, b, g, j, k and l of the Regulation on current information. Information stipulated in paragraph 91(5)(4) items c-f, h and i of the Regulation included in the statement on compliance with corporate governance rules complies with applicable laws and is consistent with the information included in the financial statement.

Statement on non-audit services

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

Appointment of the audit firm

We were appointed to audit the Company's 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 responsible for the audit:

**Zygmunt Cichocki**

entered in the register of statutory auditors under the number 9896

Audit firm on behalf of which a key statutory auditor has audited the financial statement:

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

80-266 Gdańsk, 212 Grunwaldzka Street

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

Gdańsk, 26 April 2019

**Zygmunt Cichocki**

[Electronic signature on the original version of the document]