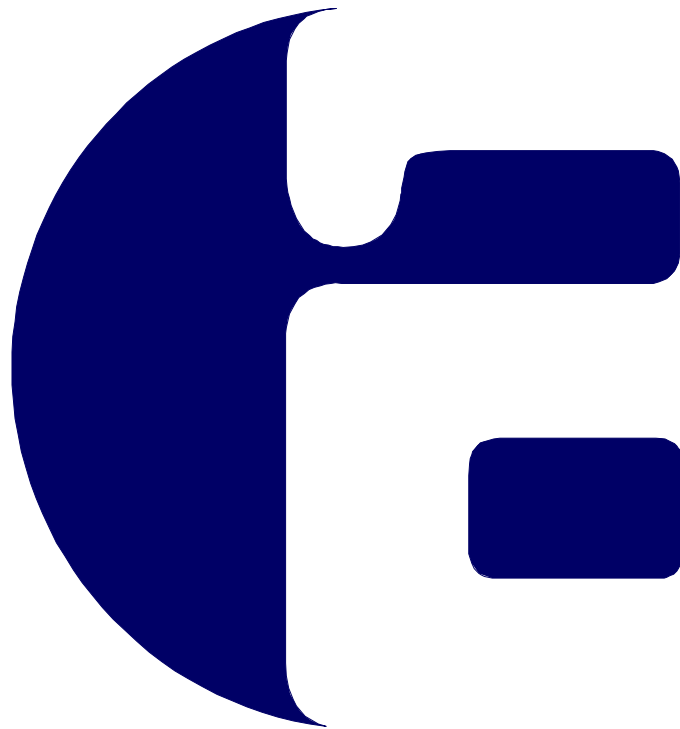


ARCUS Spółka Akcyjna
www.arcus.pl



Report of the Management Board
on business activities of
Arcus S.A. Group
in 2018

Ladies and Gentlemen, Dear Shareholders and Business Partners,

It is with pleasure that I present to you, the report on business activities of Arcus Group for the year 2018. The year in which we have entered a fourth decade of Arcus Company's operations.

Last year was the next stage in pursuing the development strategy. Its basic assumption is to build a strong, diversified IT group comprising companies specialized in their offer. The operations of each company are aimed at the same goal - increasing the effectiveness of actions undertaken by our Clients. It is for Them and with Them that we introduce new solutions to the market, modify the existing ones, adjusting them to the needs and challenges of several thousand companies and institutions serviced by our Group. As in previous years, the year 2018 was for ARCUS Group a period when we increased the profitability of sales and strengthened the market position gained in previous years.

In 2018, ARCUS S.A. together with other companies being part of ARCUS Group implemented projects for institutional and commercial clients. Most of the deliveries and implementations performed were related to comprehensive IT systems within which the offered equipment was only an element of the implemented solutions. Last year also confirmed the rightness of the decision to launch Arcus Kyocera MDS solutions dedicated to particular industries: education (Arcus EDU), medical (Arcus MED) and administration (Arcus ADM). They successfully complemented the existing offer of scalable solutions addressed to corporate clients, administration and SMEs. The decisions mentioned above are aimed at diversification of business risk into thousands of serviced entities, with which ARCUS Group concludes long-term service contracts for rental or lease of equipment, software, and above all comprehensive solutions. The experience of the last few years confirms the effectiveness of the above strategy, which over the recent years has allowed to mitigate the effects of stagnation in the public procurement sector in the area of IT solutions for administration and state-owned companies.

Last year, Zeccer joined Arcus Group. The effect of cooperation synergy within the Arcus Group is Arcus Kyocera Zeccer, an innovative public printer service (available at airports, student dormitories, retail stores, shopping malls, offices and many others), which fits into the global 'sharing economy' trend.

In 2019, ARCUS Group's companies will continue to focus on the corporate sector, especially on SMEs sector. A very important factor of our development is the intensification of activities both in the area of document circulation systems, development of the printing environment and implementation of ERP and CRM systems. This year should also see plenty of implementation of proprietary comprehensive sets of tools for modern, integrated communication (Unified Communication) and digital transformation. The experience of recent years shows that the solutions offered by Arcus Group have a significant impact on the development of our Clients' business through cost optimization, increasing efficiency and, as a result, increasing competitiveness on the market.

Focusing our activities on the commercial market does not exclude Arcus Group's participation in public procurement. We consider these activities to be complementary and likely to generate additional revenues for the Group. Arcus Group's companies continuously monitor the market and, after thorough analysis, decide to engage only in profitable projects. It is possible thanks to the rich experience of Arcus Group's companies in the implementation of public procurement projects.

Currently, clients expect from the supplier the widest possible range of IT solutions and assuming full responsibility for their integration.

By combining individual competencies within the group, company will strengthen its competitive advantage.

This should translate into a further increase in operating profits, improved EBITDA, and entering into long-term contracts securing revenues in the long term. The achievement of these objectives will contribute to the increase of the company's value for both the Shareholders and our Clients.

The year 2018 was also another year of dispute between ARCUS S.A. and Energa Operator in terms of implementation of the smart metering system. The indecision and inaction on the part of Energa results in prolongation and intensification of the ongoing proceedings. Unjustified demands for payment of significant amounts of claims for damages in connection with performance of contracts, calculation of contractual penalties and escalation of the dispute significantly hinder the development and performance of business operations by Arcus S.A. Nevertheless, the Management Board of Arcus S.A. continuously undertakes actions aimed at encouraging Energa Operator to engage in settlement discussions, the effect of which should be to resolve the dispute in a manner favorable for both Parties to the dispute.

Regardless of the dispute with Energa, T-matic Systems being a part of Arcus Group, actively seeks opportunities to develop and to use its extensive experience in the smart metering market in Poland and abroad. According to the New Energy Law, taking into account the EU directives in this area, by 2020 80% of electricity consumers in Poland will be obliged to have a smart meter installed. This means that in the coming years, electricity suppliers will have to launch large investment projects in this area. Arcus Group, as a leader in smart metering infrastructure solutions, has the greatest practical experience in the implementation of such solutions.

On behalf of myself, the Management Board and all employees, I would like to thank the Clients and business partners for their trust and contribution to the continuous development of the Company and for building as undeniably strong and innovative IT group as Arcus Group.

Yours sincerely,

Michał Czeredys

President of the Management Board of ARCUS S.A.

1 Key information about AGRCUS Group

1.1 Composition of the Group

As at 31 December 2018 and as at the date of the financial statement hereof preparation, ARCUS S.A. Group is composed of the following entities:

- ARCUS S.A. as a Dominant Entity
- subsidiary undertaking: Arcus Systemy Informatyczne Sp. z o.o.
- subsidiary undertaking: T-matic Systems
- 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 2015),
- affiliated undertaking Zeccer Sp. z o.o. – in which ARCUS S.A. holds 15% of participating interests (participating interests acquired in the reporting period).

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).

In the reporting period ARCUS acquired 15% of shares in Zeccer Sp. z o.o., a company operating in the area of document management services on the retail market, whereas **Arcus Kazachstan**, a company not performing any business activities, was liquidated.

1.2 Management and Supervisory Boards

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, 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

In accordance with the Articles of Association of ARCUS S.A., 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.

By the Resolution of the Supervisory Board of 9 July 2015, within the structure of the Supervisory Board, the Audit Committee was appointed. As from 10 October 2017 the composition of the Audit Committee was as follows: Leszek Lechowski (Chairman of the Committee), Michał Łotoszyński and Krzysztof Franciszek Przybył. On 5 July 2018, a new composition of the Committee was appointed by the resolution of the Supervisory Board:

- Leszek Lechowski – Chairman of the Committee
- Michał Łotoszyński – Member of the Committee
- Jolanta Grus – Member of the Committee

2 Share capital and shareholding structure of the Company

In accordance with decisions of the General Meeting of Shareholders, in 2014 the share capital of ARCUS S.A. was reduced by PLN 7 515.70. Currently the share capital amounts to PLN 732 000.00 and is divided into 7 320 000 bearer ordinary shares (D-series shares), with nominal value of PLN 0.10 each, conferring the right to 7 320 000 votes. All shares are admitted to public trading on the Warsaw Stock Exchange.

Shareholding structure of ARCUS S.A. as at 31 December 2018 and 26 April 2019 (according to the best knowledge of the Management Board)

Shareholding structure	Number of shares = Number of	Nominal value of shares held (PLN)	Share in the share capital = share in the total number of votes
MMR Invest S.A. ⁽¹⁾	4 800 000	480 000	65,6%
Other Shareholders	2 520 000	252 000	34,4%
TOTAL	<u>7 320 000</u>	<u>732 000</u>	<u>100,0%</u>

⁽¹⁾ MMR Invest S.A. is controlled by Mr. Marek Czeredys, Mr. Michał Czeredys and Mr. Rafał Czeredys

On 14 June 2012, the General Meeting of Shareholders adopted the Resolution No 26 regarding the buyback 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 GM.

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 General Meeting of Shareholders, decided on the conversion of all existing shares of A, B and C series into D series shares, and on redemption of 75 157 shares.

3 Changes in the number of the issuer's shares or share options held by the members of the management or supervisory bodies

To the best knowledge of the Management Board of the Company, apart from information presented in the table below, as at 1 January 2018, 31 December 2018 and as at the day of publication of the report hereof, members of the Supervisory Board and the Management Board did not hold shares of ARCUS S.A. The table below presents the holding of shares by Members of the Supervisory Board and by the Company's Shareholders in Company's affiliated undertakings as at 31 December 2018 and as at the day of the report hereof preparation.

Participating interests or shares held by members of the Supervisory Board in affiliated undertakings of ARCUS S.A.

Member of the Supervisory Board	Entity	Number and nominal value of shares/ participating interest as at 31 December 2018	Number and nominal value of shares/ participating interest as at 26 April 2019
Marek Czeredys	ADD Polska Sp. z o.o. Sp. Komandytowa	PLN 10 thousand / limited partner contribution - PLN 20 thousand	PLN 10 thousand / limited partner contribution PLN 20 thousand
Marek Czeredys	ZAKŁAD DOŚWIADCZALNY INSTYTUTU ZOOTECNIKI MEŁNO Sp. z o.o.	6 088 participating interests with value of PLN 6 088 thousand / 52,03% of share capital	6 088 participating interests with value of PLN 6 088 thousand / 52,03% of share capital
Marek Czeredys	ADD Polska Sp. z o.o.	PLN 51,5 thousand / 100% of share capital	PLN 51,5 thousand / 100% of share capital
Marek Czeredys	T-matic Systems SA	322.650 shares with value of PLN 322 thousand / 25,3% of share capital	No shares held. Shares redeemed on 12 March 2019.
Rafał Czeredys	Polmag Sp. z o.o.	13 200 participating interests with value of PLN 6 600 thousand / 73,3% of share capital	13 200 participating interests with value of PLN 6 600 thousand / 73,3% of share capital

Other members of the Supervisory Board or the Management Board of ARCUS S.A., according to the best knowledge of the Management Board, do not hold shares in Company's affiliated undertakings. Mr. Marek Czeredys, Mr. Michał Czeredys and Mr. Rafał Czeredys are dominant entities in MMR Invest S.A., and thus in Arcus S.A.

4 According to the knowledge of the Company - any agreements which may potentially result in changes in the proportion of shares held by existing shareholders

As at 31 December 2018 as well as at the date of this report, the Company is not aware of any agreements which may result in future changes in the proportions of shares held by the existing shareholders of Arcus S.A.

5 Information on the acquisition of own shares

On 14 June 2012, the General Meeting of Shareholders adopted Resolution No 26 regarding the repurchase 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 GM.

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 General Meeting of Shareholders, decided on the conversion of all existing shares of A, B and C series into D series shares, and on redemption of 75 157 shares. In the reporting period ARCUS S.A. did not hold any own shares.

6 Identification of major domestic and foreign investments and capital investments (securities, financial instruments, intangible assets and real estate)

In 2018, no capital investments were made apart from those presented in the report hereof.

7 Discussion of the results of the Group in 2018, description and assessment of factors and non-recurring events which had an impact on the operating result for the financial year

<u>Profit and loss account</u>	01.01 - 31.12.2018	01.01 - 31.12.2017
Sales revenues	138 381	141 676
Cost of sales	-100 628	-104 333
<u>Gross profit (loss) on sales</u>	<u>37 753</u>	<u>37 343</u>
Other operating income	889	1 364
Selling costs	-24 672	-22 501
General and administrative costs	-11 866	-12 199
Other operating costs	-349	-415
<u>Profit (loss) on operating activities</u>	<u>1 755</u>	<u>3 592</u>
Financial revenues	255	861
Financial costs	-1 890	-339
Result on financial activities	-1 635	522
<u>Profit (loss) before tax</u>	<u>120</u>	<u>5 521</u>
Income tax	-157	-1 446
<u>Net profit (loss)</u>	<u>-37</u>	<u>4 075</u>
EBITDA	5 126	6 566
Profit (loss) per share	0,09	0,17
Ordinary and diluted	0,09	0,17
<u>Net profit (loss) attributable to the Shareholders of a Dominant Entity</u>	655	1 266

The Group, pursuing an informed policy of development of sales, service and administration structures, maintained its ability to generate positive economic results.

In 2018, the Group generated PLN 138.4 million of sales revenues. Comparing to 2017, a drop by PLN 3.2 million (2%) was recorded.

The level of the net result for 2018 (compared to 2017) was influenced by several factors:

- stabilization of the level of consumables sales as a result of actions aimed at making customers aware of the advantages of using original materials,
- postponement in the execution of some contracts (necessity to maintain infrastructure), however, with a visible reversal of negative trends from previous periods; lack of large procurement procedures in public administration,
- increase in revenues from sales of services generated by the Dominant Entity,
- change in the trend of PLN/EUR exchange rate differences (foreign exchange losses in the reporting period compared to foreign exchange gains in the comparable period),
- delays in disbursing EU funds,
- need to maintain and bear costs of the teams dedicated to the energy markets, in view of the attractive development prospects for these areas,

- decrease in revenues and profitability in the subsidiary - Arcus Systemy Informatyczne (comparing to previous year, in 2018 the sales revenues dropped due to postponing the tenders crucial to the Company; moreover, in 2018 the restructuring was carried out involving finalisation of unprofitable projects, which was also reflected in a decrease in revenues, while in the short term it additionally resulted in higher costs; positive effects of activities undertaken in 2018 should be observed in future periods).

In 2018, the Group continued the activities started in previous periods related to the implementation of the modified sales policy assuming:

- reduction of the share of business operations going beyond the Group's specialization,
- elimination of activities entailing a high risk and a significant probability of incurring losses in the future,
- intensification of activities aimed at attracting customers from the SME segment,
- building the competitive advantage based on own distribution and service network,
- systematic introduction of own technological solutions complementing the functionality of global producers' products,
- increase of profitability in the telematics services segment,
- attracting new customers in the telemetry services segment,
- optimization of purchasing policy and inventory management.

In 2018, the ARCUS Group, having verified the current sales strategy, decided that the existing expansion directions, covering the sale of goods and services including one-off sales transactions, lease contracts and agreements for services related to processing and workflow of documents, will be maintained.

The Group recognizes that one of the key elements of its operations is the development of proprietary IT software solutions and provision of programming solutions for products or solutions of the Group's strategic partners, which in order to increase their competitive advantage are supplemented with software solutions developed by the Group.

Furthermore, the strategy of developing local sales and service channels initiated in prior periods has enabled participation in national-scale contracts. As a result, it allowed for the execution of orders for medium and large clients, for which the requirements in the scope of additional services were only possible to be met through local structures of companies.

The Group has and continues to expand its network of partners, both commercial and service, thanks to which it delivers services to the most demanding customers with a very high level of SLA on the market. As at the balance sheet date, the Group, using its own branches and entities cooperating on a partnership basis, may carry out the most demanding orders in Poland without a significant risk of exposing itself to losses as a result of the lack of infrastructure possibilities to meet the contractual requirements of clients.

The analysis of sales by separate business segments shows that in 2018, when compared to the previous year, the decrease in sales revenues was recorded in the main segments, i.e. IT and other services, as well as in the subsidiary company - Arcus Systemy Informatyczne (ASI).

Operating segments for the period from 01.01 to 31.12.2018	IT Segment	Telematics Segment	Telemetry Segment	Other services Segment	Total
Revenues	106 194	3 844	1 425	26 918	138 381
Sales to external clients	106 194	3 844	1 425	26 918	138 381
Total revenues of the segment	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	-	-	-	-	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
Revenues	107 242	3 800	368	30 266	141 675
Sales to external clients	107 242	3 800	368	30 266	141 676
Total revenues of the segment	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

The average annual profitability for all segments decreased by 2.24 pp from 8% in 2017 to 5.76 % in 2018.

Profitability by segments 2018-2017

Margin according to segments

	2018	2017
IT Segment	8,70%	12,20%
Telematics services	1,14%	-11,20%
Telemetry/Energy services	-26,46%	-82,10%
Other services segment	-3,46%	-3,10%
Average margin	5,76%	8,00%

Profitability in the IT segment is also a result of increased share of consumables sales which on the one hand caused an increase in turnover, on the other hand, due to the relatively low margin, reduced the profitability of this segment. The strategy implemented in the area of specialisation and market segmentation assumes offering specialized assortment groups through the particular companies being a part of Arcus Group. The main assortment groups include:

- printers and MFP devices,
- inserters and sorters,
- IT software,
- IT equipment,
- measuring devices,
- other.

The first two of above mentioned groups: Printers, MFP Devices and Inserters and Sorters are in the center of key operations of ARCUS S.A. – a Group's dominant company which controls other entities through shares held. The assortment classified to IT Software category is being offered by two companies: Arcus Systemy Informatyczne and DocuSoft and covers ERP class software and document and information management systems. IT Equipment covers mainly the commercial activities and activities in the field of implementation of IT technical infrastructure. However, T-matic had divided the two products and separated the telematics business from its structure and merged with the organised part of Rikaline's company. Both entities have established Geotik, which has much greater competences and a much larger portfolio of customers. Measuring Devices group relates to telemetry and telematics services which were provided by T- matic Systems. The last assortment group – other, refers to the energy brokerage business operated by Durau.

The last assortment group (other) is represented by brokering services in the field of energy trade provided by Durau company.

In 2018, the Group successfully implemented two sales targets:

- increase in sales for lease of Kyocera Document Solutions products,
- increase in revenues from sales of printouts.

Balance sheet - selected items

	As at 31.12.2018	Share %2018	As at 31.12.2017	Share %2017
Fixed assets	38 030	36,7%	35 885	31,4%
Current assets	65 533	63,3%	78 493	68,6%
Inventories	12 497	12,1%	9 281	8,1%
Trade and other receivables	50 763	49,0%	66 936	58,5%
Cash and cash equivalents	1 802	1,7%	1 824	1,6%
Total assets	103 563		114 378	
Equity	43 898	42,4%	46 963	41,1%
Long-term provisions	6 042	5,8%	5 217	4,6%
Liabilities	53 623	51,8%	62 198	54,4%
- long-term	14 169	13,7%	16 785	14,7%
- short-term	39 454	38,1%	45 413	39,7%
*trade and other	33 725	32,6%	42 449	37,1%
Total liabilities	103 563		114 378	

In 2018, the balance sheet total amounted to PLN 103.6 million and were lower by PLN 10.8 million than as at the end of 2017. Current assets amounting to PLN 65.5 million and accounting for 63.3% of the balance sheet total, represented the largest value in assets of the balance sheet total. As in a previous year, in 2018 business operations of ARCUS Group were financed primarily with equity and merchant credit. The trade liabilities amounted to PLN 33.7 million against an adequate amount of trade receivables amounting to PLN 50.7 million.

Employment

In 2018, employment level in the Group decreased by 5%. At the end of previous year, the Group employed 231 employees and currently 219. Changes in employment level in the companies resulted from integration of common areas of activity of Arcus Group and restructuring in the subsidiary - ASI.

Employment by Group's companies

	As at 31.12.2018	As at 31.12.2017
Arcus S.A.	149	148
Arcus Systemy Informatyczne S.A. (ASI)	44	55
T-matic Systems S.A.	5	5
Docusoft Sp. z o.o.	11	12
Durau Sp. z o.o.	1	1
Geotik Sp. z o.o.	10	10
Total	219	231

8 Material events having a significant impact on Group's operations and financial results during the reporting period or the influence of which is possible in the coming years

Apart from those described in the financial statement, in 2018 there were no one-off events that would have had a significant impact on the results of this period, as well as might have significantly affected the results of subsequent years, however, the Management Board draws attention to the following matters which occurred in 2018:

- a growth is observed with respect to the markets' interest in lease services due to reduction of the share of sales contracts. The market trend is positive for ARCUS S.A. as it enables delivering packages of additional services and achieving greater revenues thanks to the experience gained by ARCUS S.A. over the years. However, it must be also noted that this trend leads to higher capital intensiveness of business operations. As a consequence, Arcus S.A. with limited external financing which is caused by the pending dispute with EOP, could not take full advantage of the commercial potential in 2018,
- in terms of cooperation with its business partner - Kyocera, ARCUS S.A in the fiscal year (April 2018 – March 2019) maintained a status of the largest independent recipient in EMEA countries,
- enlargement of the Group, whose dominant entity is Arcus S.A., by a new entity - Zeccer Sp. z o.o., offering document management services on the retail market,
- in the period between the balance sheet date and the date of preparation of this annual report, there were no other events that could materially affect the assessment of the financial situation of Arcus Group as at 31.12.2018.

9 Description of the policy in terms of the development of the issuer's group

The Management Board ARCUS S.A., as a Dominant Entity of the Group, has defined the following strategic objectives in terms of the Group's development:

- strengthening the market position in the core business profile and development of competences as well as use of synergies in new business areas, gaining new suppliers of advanced technologies and solutions on the basis of territorial exclusivity, expanding the customer base and new acquisitions,
- increasing the scale of activity in the scope of the supply of IT services in Poland in order to gain a significant market position in this segment,
- building a leading position in the telemetry market (smart grid) and the position of a niche, specialized provider of IT services and systems in PLC technology,
- strengthening the position of a market leader in the area of telematics and transmission solutions in new sectors. Building an independent operator's position in the control and measurement systems market, as well as sales of more sophisticated IT solutions that allow customers to consciously manage their fleet resources, and thus leaving the market where price is the primary determinant,
- use of synergies within the Group to complement the competence between companies.

10 Risk factors and threats related to the Group's operations

The activities of the Group's companies are subject to many factors, both external and internal, which may have a significant impact on the financial position. Among the most important risk factors, the following shall be listed:

- risk related to the general macroeconomic situation resulting from the fact that the demand for products offered by the Company is associated with economic growth rate, which affects the willingness of the Company's customers to make investments in offered products and services, which may in consequence negatively affect the revenues and profits generated,
- risk associated with technological changes in the sector and the development of new technologies, and thus relatively short lifecycle of IT solutions, equipment and technology and associated need for constant monitoring of technological changes,
- risk associated with performance of business operations in a market niche (correspondence and document lifecycle management) and risk of potential competitors which may negatively affect the financial results,
- risk associated with dependence on suppliers arising from the fact that part of the system solutions offered by the Issuer are based on the technological platforms supplied by third parties, and thus the sales of goods from external suppliers is the core source of Group's revenues. The termination of agreement by any of the main suppliers or any changes in the terms of supplies execution may therefore result in a significant decline in sales and financial results of the Company,
- risk associated with dependence on clients resulting from the fact that the Company sells part of offered solutions to a relatively narrow group of clients whose activities are related to the processing of significant quantities of documents or correspondence. Therefore, there is a risk that the loss of part of clients from the group of the largest recipients of the Company, may adversely affect the level of sales revenues and financial performance,
- exchange rate risk associated with volatility on global financial markets, resulting in the fact that the Company as an importer in the EUR and USD zones, is exposed to potentially higher than projected costs of purchase of goods (in the case of PLN depreciation) or lower revenues denominated in foreign currencies (in the case of PLN appreciation). Particularly in the case of contracts executed in public sector prices are denominated in the Polish currency and are not subject to renegotiation in terms of the prices,
- legislative and legal risks associated with unstable and unviable regulations on public procurement, ensuring the ordering party a dominant position towards the supplier/contractor, which allows the ordering party to include unilateral and unfavorable terms and conditions in agreements and to take hostile action against suppliers/contractors, including calculation of disproportionately high amount of penalties,
- the risk of lack of human resources, which is related to changes in staff's approach and high competition for qualified employees between IT companies.

11 Risk factors associated with shares

D-Series Shares (formerly A, B and C) are admitted to trading on a regulated market. Admission required the fulfillment of a number of formal requirements specified in the provisions of the Warsaw Stock Exchange Rules (WSE Rules) and the National Depository for Securities Rules. The relatively low average turnover may entail the liquidity risk.

12 Information on key products, goods and services

ARCUS Group offers comprehensive solutions for document and correspondence management in public enterprises and institutions, which include hardware, software and services aimed at optimizing document processing, mailstream management processes and costs related to the car fleet.

The Group is also intensively developing a group of new software solutions related to information flow management, including electronic documents. In 2018, the Group offered solutions from the following main areas:

- document lifecycle management systems (office solutions) – sales of solutions, equipment, software and services;
- correspondence management systems (mail stream solutions) addressed to postal and dispatching centers;
- solutions for monitoring fleet vehicles, which facilitate the operation and reduce the costs of companies involved in fleet asset management.

System solutions offered by the Group, both in terms of document lifecycle management and the mail stream management, are based on professional technology platforms. These solutions can be adapted to the specific operations of both small and medium-sized enterprises, large companies and corporations, and institutions - both at the level of Offices of cities and municipalities, and multi-branch central offices employing several thousand workers.

The equipment being a part of the technology platform is obtained by the Group from renowned global partners and include: MFP devices and printers from Kyocera Document Solutions, devices for correspondence processing (mail inserters, sorters, franking machines, electronic weighing scales, folders, address printers, envelope openers) from Pitney Bowes, as well as other office equipment such as IT and ICT equipment. Both the scope of the portfolio and the trading volume ranks ARCUS Group among the leaders on the Polish market.

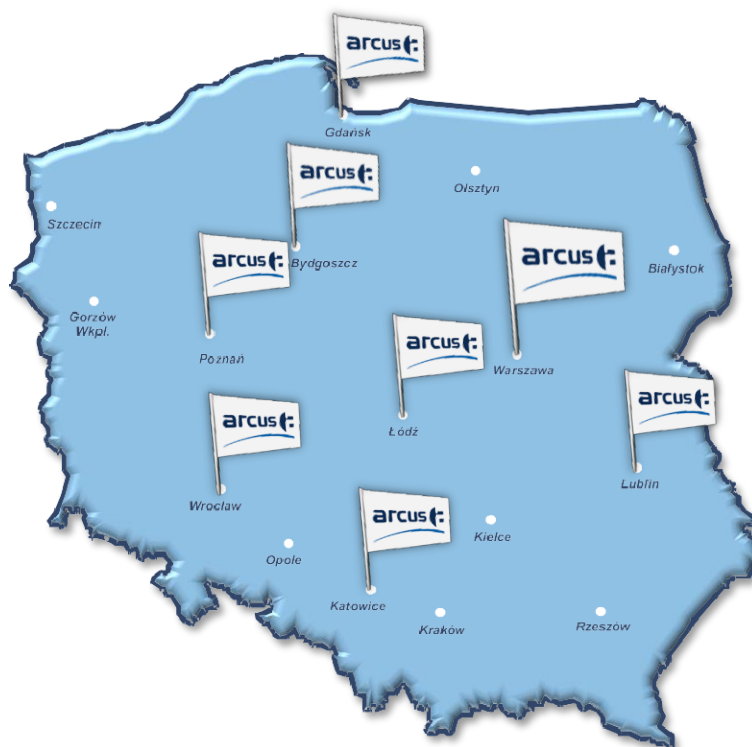
In 2018, the Group generated sales revenues on the domestic and partly on foreign markets. Overseas sales accounted for 2% of the total revenues in 2018. The geographical distribution of sales in Poland is proportional to the number of inhabitants and the level of GDP generated in individual voivodships.

Information on Dominant Company’s branch offices

ARCUS S.A. has its headquarters in Warsaw and 7 regional branch offices providing commercial and maintenance services, located in the following cities:

- Gdańsk,
- Bydgoszcz,
- Poznań,
- Łódź,
- Wrocław,
- Katowice.
- Lublin

Location of ARCUS S.A. branch offices at 31 December 2018



13 Suppliers and clients of the Group

In 2018, similarly as in the previous year, Kyocera – an international Corporation, was the Dominant Company’s supplier. Kyocera is a Japanese manufacturer of document management systems, including laser printers and MFPs (multifunction devices). Its share in commercial transactions accounted for approx. 70% of the total purchase transactions executed by the Dominant Company in 2018. In terms of cooperation with Kyocera as a business partner, ARCUS S.A in the fiscal year (April 2018 – March 2019) maintained a status of the largest independent recipient in EMEA countries.

14 Agreements significant to the Company’s business

Thanks to its advanced technology team, its own distribution and reseller network as well as its service network, the Group offers one of the most advanced and comprehensive document management systems (ARCUS Kyocera MDS). The offered solutions, including after-sales and maintenance services provided at a very high level, as well as scalability of the systems, enable us to serve corporate clients, central administration and enterprises from the SME sector.

In 2018, the Dominant Company successfully continued the implementation of agreements concluded in previous periods, e.g. with Bank Millennium SA, mBank S.A. or the project for Solid Security Sp. z o.o. carried out in cooperation with the Partner - Integrated Solution Sp. z o.o. After the balance sheet date, an agreement was concluded with Alior Bank S.A. for the supply and service of printing equipment.

15 Information on the major achievements in research and development

Arcus runs a program of research and development (R&D) as part of Arcus Group's operations covering all Group's entities. In 2018, the most important projects were:

- development of own solution in the field of MicroEDI software,
- development of CRM system based on Microsoft Dynamics AX,
- further development of ERP class system based on Microsoft Dynamics AX and cloud computing,
- further development of Vario system (workflow and optimization of decision-making processes),
- development of own intelligent OCR system supporting sales activities in the field of printers, MFPs and IT software.

16 Information on environmental issues

In the reporting period, the Group's operations did not have a negative impact on the environment. Nevertheless, issues related to environmental protection, utilization and use of consumables and energy efficiency of equipment and systems offered by the Group are an important element of the company's philosophy. Together with its strategic partner - Kyocera Document Solutions, Arcus S.A. participates in a global environmental liability program.

17 Information on any organisational or capital links between the Issuer and other entities

The following entities are direct affiliated undertakings of ARCUS S.A. through the shares/participating interests held:

- subsidiary undertaking: T-matic Systems SA - in which ARCUS S.A. holds 74,73 % of shares (as from 12 March 2019 – 100%),
- Geotik Sp. z o.o. – in which ARCUS S.A. holds 66,67 % of participating interests,
- subsidiary undertaking: DocuSoft Sp. z o.o. – in which ARCUS S.A. holds 86,96% of participating interests,
- subsidiary undertaking: Durau Sp. z o.o. – in which ARCUS S.A. holds 84,1% of participating interests, and its subsidiary undertaking: LMT Sp. z o.o. (in the reporting period ARCUS S.A. acquired from Durau Sp. z o.o. 39% shares of LMT Sp. z o.o.),
- subsidiary undertaking: Arcus Systemy Informatyczne Sp. z o.o. - in which ARCUS S.A. holds 53% of participating interests,
- affiliated undertaking Zeccer Sp. z o.o. – in which ARCUS S.A. holds 15% of participating interests (participating interests acquired in the reporting period).

Apart from mentioned above, the following entities were Dominant Company's affiliated undertakings in 2018:

- Satore Sp. z o.o. – entity personally related to Arcus Systemy Informatyczne Sp. z o.o. (did not conduct business operations)
- ADD Polska Sp. z o. o. Sp. k. – in the reporting period Arcus S.A. and T-matic Systems S.A. were the partners in the limited partnership
- ADD Polska Sp. z o.o. - in the reporting period Arcus S.A. and T-matic Systems S.A. were the shareholders in the company
- Polmag Sp. z o.o. - in the reporting period Arcus S.A. and DocuSoft Sp. z o.o. were the majority shareholders in the company
- Zakład Doświadczalny Instytutu Zootechniki Mełno Sp. z o.o. - in the reporting period Arcus S.A. and T-matic Systems S.A. were the majority shareholders in the company
- Kancelaria Radcy Prawnego A.Z.Czeredys (The Office of Legal Advisor)

18 Information on significant transactions executed by the issuer or its subsidiaries with affiliated undertakings on conditions other than arm's length conditions

In the period from 1 January 2018 to 31 December 2018, ARCUS Group's companies did not execute with aforementioned affiliated undertakings any transactions which total value in the period from the beginning of the financial year would exceed the equivalent of EUR 500,000. None of ARCUS Group's companies entered into transactions with affiliated undertakings on other than arm's length conditions.

19 Information on any contracted loans, any signed loan agreements as well as on received or granted sureties or guarantees

On 17 December 2018, an annex was signed with Ergo Hestia extending the validity of the insurance guarantee (concerning the dispute with EOP – see paragraph “Disputes”) until 31 December 2019, secured with a financial guarantee granted by the majority shareholder of ARCUS S.A.

In the reporting period, the Dominant Company granted to its subsidiary undertaking - Arcus Systemy Informatyczne Sp. z o.o., a surety under a loan agreement for the amount of PLN 1.5 million.

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.

Except for the abovementioned, in 2018 the Dominant Company and other Group's companies were not granted any other significant sureties, guarantees or loans apart from the standard insurance guarantees and performance bonds related to tender proceedings.

20 Description of the use by the Group of proceeds from the issue of securities

As part of the execution of issue objectives described in the Issue Prospectus, in terms of the development of new areas of activity, on 23 May 2011 the Company acquired for the total amount of PLN 2 million, new shares in Docusoft Sp. z o.o. accounting for 90% of its share capital. In September 2011, Arcus S.A. acquired for the amount of PLN 367 thousand, new shares in a subsidiary – T-matic Sp. z o.o. In April 2013, after transformation of T-matic Systems S.A. into joint stock company, Arcus S.A. acquired for the total amount of PLN 1.98 million, 220 thousand new shares of this company. On 8 April 2015, the Extraordinary General Meeting of T-matic Systems S.A. adopted a decision on the share capital increase by the amount of PLN 340 thousand through the issue of 340 thousand shares (to be subscribed by ARCUS S.A.) of total value amounting to PLN 3.06 million. As a result of subscription of these shares, the share of ARCUS in T -matic Systems S.A. increased to 74.7% in capital and to 67.6% in the total number of votes. Acquisition of new shares in Docusoft Sp. z o.o. was associated with taking control of Vario software intended for the development of workflow management and enabled the Company to supplement its offer with such solutions. This is part of shaping a strategy based on generating added value, which is to complement the distribution area of copying and printing equipment. In November 2013, a subsidiary – T-matic Systems S.A. established Durau Sp. z o.o. company for the total amount of PLN 20 thousand, while in January 2014 increased its capital to the amount of PLN 100 thousand. In July 2014 these shares were sold to Arcus S.A. who increased the capital of this company to the amount of PLN 300 thousand.

On 25 April 2014, ARCUS S.A. concluded an Investment Agreement as a result of which undertook to acquire for the total amount of PLN 7.66 million a controlling share in Syntea Business Solutions. In accordance with the terms of mentioned Agreement, on 27 June 2014 ARCUS S.A. acquired newly issued shares of Syntea Business Solutions of issue value amounting to PLN 5.1 million in exchange for an in-kind contribution in the form of an organized part of an enterprise and received 30.2% share in the capital and in the total number of votes at the GM of this company. Furthermore, on 1 July 2014 conditional agreements regarding the acquisition of the shares of new issue in exchange for cash in the amount of PLN 528 thousand and the repurchase of shares from existing shareholders for the total amount of PLN 2 million, were finalized. Due to the above, as of 1 July 2014, ARCUS S.A. is a controlling shareholder in ASI (53% share in capital and votes).

In addition to the direct use of proceeds from the issue of securities in term o acquisition of business entities or organized parts of assets that may increase the Group's sales capability and diversify operational risk by strengthening its position in new market segments, Arcus Group through the indirect use of funds from the issue pursues the following goals:

- financing medium- and long-term contracts for the lease of printing and MFP equipment,
- development of proprietary IT software solutions,
- development of new IT solutions that could become an independent product or service,
- development of own solutions and optimization for products offered by strategic partners.

21 Explanation of any differences between the financial results disclosed in the annual report and the financial forecasts published earlier for the year 2018

The Management Board of ARCUS S.A. has not disclosed any forecasts regarding the Company's financial results for 2018.

22 Assessment of the Group's financial resources management

At the end of 2018, the value of current assets amounted to PLN 65.5 million, while short-term liabilities to PLN 39.5 million (long-term liabilities – PLN 20.2 million). The high predominance of current assets over the total amount of liabilities of the Group, ensures the possibility to settle both long-term and short-term liabilities. The following table shows the liquidity ratios, profitability ratios and the amount of working capital at the end of 2018-2017.

Liquidity ratios, profitability ratios and the amount of working capital

	2018	2017
Current liquidity ratio	1,66	1,73
Quick ratio	1,34	1,52
Net working capital (PLN thousand)	26 079	33 080
Return on assets (ROA, %)	-0,04%	0,35%
Return on equity (ROE, %)	-0,08%	0,86%
Return on sales (ROS, %)	-0,03%	0,28%

Compared to 2017, in 2018 the liquidity ratios, working capital decreased slightly, while maintaining satisfactory levels. The drop of net profit profitability ratios is caused by a lower result on operating activities and a negative result on financial operations (foreign exchange losses).

The following transactions are recognized within Group's internal financing:

Loans granted to affiliated undertakings under consolidation

	31.12.2018	31.12.2017
Loans granted	2 932	2 854
Interests on loans granted	906	731
Total	3 838	3 585
<i>Including loans granted to:</i>		
T- matic Systems	517	516
Docusoft	1 204	1 092
Durau/LMT	1 288	1 863
ASI	830	114

Loans granted to affiliated undertakings of ARCUS S.A. are executed on arm's length conditions.

23 Information on financial instruments

Information on financial instruments in terms of price risk, credit risk, material cash flow disruptions and liquidity disruptions to which the Company is exposed as well as information on the objectives and methods of financial risk management adopted by the Company.

Foreign exchange risk

Foreign exchange risk arises from the nature of business operations – a Dominant Company - ARCUS S.A. is an importer of goods and services from EUR and USD zones, which are then resold on the domestic market in PLN. ARCUS S.A. also conducts export sales in EUR. Within its ongoing operations, the Group has not used the forward transactions (except for hedging one currency purchase transaction for the purpose of payment for delivery) and expert advice in terms of projected exchange rates or a policy regarding the purchase of foreign currencies. All transactions were strictly associated with import activities and were aimed at securing the purchase of EUR currency. The Management Board and CFO of Arcus S.A. executed the ongoing supervision over the implementation of aforementioned transactions. In 2018, the Group did not issue derivative instruments.

Interest rate risk

ARCUS S.A. and its subsidiary undertakings are parties to loan and lease agreements based on variable WIBOR interest rate increased by calculated margin. The Company does not use interest rate hedging instruments since the impact of such risk on the Company's performance is minimal. Free cash is invested in short-term bank deposits.

Credit risk

Credit risk refers mainly to asset classes such as receivables, loans granted, cash and bank deposits, short-term financial assets. Customers wishing to establish cooperation and take advantage of trade credit in transactions with the Company are subject to a verification procedure aimed at assessing their financial standing. Subsequently, trade receivables are subject to constant monitoring by the Sales Department and the Financial Department. A large customer base and its diversification reduce the credit risk by ensuring independence from a small group of significant customers.

Liquidity risk

The management of the companies' liquidity covers the following areas: current, constant monitoring of liabilities and trade receivables, cash flow and companies' cash needs forecasting, active cash management. Short-term financial surpluses are invested in safe financial instruments, the allocation and maturity of which are adjusted to the maturity of liabilities. Liquidity risk is the risk of losing the ability to settle the liabilities within time limits. The risk stems from the potential restriction of an access to financial markets or changes in the banks' attitude to granting loans, which may result in inability to obtain new financing or refinancing the debt, particularly in the context of an ongoing dispute with EOP. 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 liquidity risk should be assessed as moderate.

24 Changes in the key principles of managing the Group's business

There were no changes in the key principles of managing the Group's business during the reporting period.

25 Assessment of the feasibility of planned investments

In the subsequent periods, the Management Board intends to focus on the development of the core business of Group's companies, including the development of their existing business segments. At present, resources are focused on strengthening the market position, generating constant added value and consistent improvement of financial results.

26 Description of internal and external factors material to the growth of the Group's business and description of development prospects for the Group's business with consideration of the market strategy

The economic situation in Poland, the GDP growth rate, the share of EU funds in the financing of public infrastructure and institutions, and the level of debt of the central budget and local authorities shall be the dominant external factors influencing the Company's development in the near future. The attention shall also be given to EU regulations and related national regulations imposing on the energy, gas and other sectors, the necessity to modernize and upgrade the infrastructure. The Company also expects that thanks to the exceptional quality and efficiency of the offered Kyocera devices, customers will increasingly notice all costs related to printing, copying and workflow of documents comprehensively, and not only the conditions of the initial purchase. Increased efficiency and economics of printing and copying processes translate into lower unit cost, which is noticed by more and more institutions and business clients, changing the purchasing and operation model of such devices. In 2018, the Group generated most of the revenue from the sales contracts, but the attention should be given to a visible increase in the number and value of long-term contracts based on lease of equipment and settlements under fixed and variable charges associated with the number of printouts. In the coming years, ERP and ICT integration services as well as telematics services associated with fleet monitoring and telemetry services in terms of the development of remote metering of energy, gas and water supply networks, shall also have a significant share in the revenues.

27 Description of events significantly affecting the issuer's operations that occurred during the financial year, after the balance sheet date and until the date of the financial statement preparation

In 2018, there were no events which would materially affect the results of this period and could significantly influence the results of the coming years, but the Management Board draws attention to the description of the dispute with Energa-Operator S.A.

28 Current and expected financial situation of the Issuer

The current and expected financial situation of ARCUS S.A. Group has been described in previous sections of this report.

29 Agreements concluded between the Issuer and its managing persons, which provide for compensation in the event of a given person resignation or dismissal from the position held without a good reason or in the event where the dismissal is a result of the Company's merger and acquisition

The Group's companies are not parties to agreements with its managing persons, which provide for compensation in the event of their resignation or dismissal from the position held without a good reason or in the event where their dismissal is a result of the Company's merger and acquisition.

30 Value of remuneration, bonuses or benefits payable to company's managing and supervisory persons

In 2018, the following remuneration for the functions performed was paid by the Dominant Company to the Members of the Management and Supervisory boards:

Remuneration of managing and supervisory persons	Functioned performer in 2018	Remuneration - PLN thousand)
Marek Czeredys	Chairman of the Supervisory Board	231
Tomasz Konewka	Vice-Chairman of the Supervisory Board	162
Leszek Lechowski	Member of the Supervisory Board	30
Krzysztof Przybył	Member of the Supervisory Board	15
Bogusław Wasilewko	Member of the Supervisory Board	15
Michał Łotoszyński	Member of the Supervisory Board	30
Rajczewski Krzysztof	Member of the Supervisory Board	15
Grus Jolanta	Member of the Supervisory Board	15
Michał Czeredys	President of the Management Board	765
Rafał Czeredys	Member of the Management Board	627

In 2018, the Dominant Entity's managing and supervisory persons were not paid any bonuses or benefits resulting from share-based incentive or bonus schemes, including schemes based on bonds with pre-emptive rights, convertible bonds or subscription warrants.

31 Information on the supervision of employee incentive schemes

The Group did not implement any share-based incentive schemes referred to in this point.

32 Proceedings pending before the court, a respective body for arbitration proceedings or a public administration body

1) Dispute with Energa-Operator S.A.

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:

- penalties reserved exclusively to one party, i.e. Energa-Operator;
- allowing the possibility of cumulative contractual penalties imposed on the Issuer and T-matic (no possibility of charging any contractual penalties to the Contractor);
- 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);
- 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;
- 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:

- 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;
- 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).

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 summons 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. filed 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 filing 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.

2) Dispute with Centre of Health Information Systems

On 18 May 2016, the consortium of Arcus S.A. (a leader) and DecSoft S.A. (a member) received from the Centre of Health Information Systems a request for payment of the amount of PLN 12,86 million in connection of the Agreement of 1 July 2013 (current report no 11/2016). The subject matter of the Agreement concluded in 2013 was delivery, installation and configuration of technical-system infrastructure for the needs of subsystems implemented under the project: 'Electronic Platform for Collection, Analysis and Dissemination of Digital Data on Medical Events'. Value of the project amounted to PLN 138 million. In the Issuer's opinion, mentioned request for payment is a negotiation element used by the Ordering Party in response to claims at the total value of PLN 4,6 million made by the Consortium. Furthermore, the request for payment does not include any justification and does not provide for a legal basis of the claim. In the course of cooperation between the Consortium and the Ordering Party, services covered by the Agreement of 1 July 2013, to which the claims raised in the request relate to, were reported to the Ordering Party and settled on an ongoing basis. In addition, the scope of claims refers to works performed by a consortium's leader – DecSoft S.A. and in accordance with the consortium agreement – the responsibility lies with DecSoft S.A. Taking above into consideration, as at balance sheet day no provisions were recognized by the Company in connection with the subject dispute. Within the court proceedings initiated by the Consortium, on the hearing held on 8 November 2016, DecSoft S.A. and Arcus S.A. received from the Centre of Health Information Systems a counter-claim for the total amount of PLN 12 860 098.95. The Management Board of the Company took the position that the counterclaim was only a negotiating element on the part of the Ordering Party and was a reaction to the lawsuits previously filed by the Consortium. ARCUS S.A. were also not aware of any circumstances that could be the grounds for the claims. In the reporting period, a court settlement was signed with the State Treasury - Centre of Health Information Systems. The terms of the settlement resolved the ongoing dispute without affecting the financial statements and financial position of ARCUS S.A.

33 Information on the agreement and remuneration of an entity authorised to audit the financial statement of the Group

Under the Supervisory Board's Resolution of 10 October 2017, DORADCA Auditors Sp. z o.o. was selected to audit and review separate and consolidated financial statements of ARCUS S.A. for the year 2018. The total amount of remuneration set forth in the agreement with DORADCA Auditors Sp. z o.o. concluded on 12 June 2017 due for the audit and review of the separate financial statement of ARCUS S.A. for the year 2018 is PLN 32 thousand. The total amount of remuneration due for the audit and review of the consolidated financial statement of ARCUS S.A. Group for the year 2018 is PLN 20 thousand.

By the Supervisory Board's Resolution of 9 June 2017, DORADCA Auditors Sp. z o.o. was selected to audit and review separate and consolidated financial statements of ARCUS S.A. for the year 2017. The total amount of remuneration set forth in the agreement with DORADCA Auditors Sp. z o.o. concluded on 12 June 2017 due for the audit and review of the separate financial statement of ARCUS S.A. for the year 2017 was PLN 32 thousand. The total amount of remuneration due for the audit and review of the consolidated financial statement of ARCUS S.A. Group for the year 2017 was PLN 20 thousand.

34 Statement on compliance with corporate governance rules in 2018

"Statement on compliance with corporate governance rules in 2018" is enclosed to the report hereof.

35 Principles of the annual financial statement preparation

The annual consolidated financial statement for 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.

The financial statement has been prepared on the assumption that Arcus Group will continue as a going concern in the foreseeable future. At the date of preparation of the financial statement, there are no circumstances indicating the threat of continuation of business activity. Each of the Group's companies prepares separate financial statements. The key accounting principles are described in the consolidated annual financial statement of the Arcus Group.

Warsaw, 26 April 2019

[Electronic signature on the original version of the document]

Michał Czeredys
President of the Management Board

[Electronic signature on the original version of the document]

Rafał Czeredys
Member of the Management Board