ARCUS Spółka Akcyjna

www.arcus.pl

Separate financial statement

of Arcus S.A.

for the period from 1 January to 31 December 2017

Warsaw, 27 April 2018

1 Data on the annual financial statement of ARCUS S.A.

1.1 Selected financial data

Data on the separate financial statement of Arcus S.A. - a dominant entity

	SELECTED FINANCIAL DATA	PLN THOUSAND		EUR THOUSAND	
		01.01 - 31.12.2017	01.01 - 31.12.2016	01.01 - 31.12.2017	01.01 - 31.12.2016
I	Sales revenues	113 938	97 792	26 843	22 349
II	Profit (loss) on operating activities	4 205	- 2 976	991	- 680
III	Profit (loss) before tax	5 520	- 4 070	1 300	- 930
IV	Net profit (loss)	4 074	-3 341	960	- 764
V	EBITDA	6 023	-1 211	1 419	- 277
VI	Comprehensive income	4 074	-3 341	960	- 764
VII	Net Cash Flows from operating activities	5 891	5 250	1 388	1 200
VIII	Net Cash Flows from investing activities	-2 294	- 1 804	-540	- 412
IX	Net Cash Flows from financing activities	-2 905	- 7 092	-684	- 1 621
X	Change in cash	692	- 3 646	163	- 833
XI	Net profit (loss) and diluted net profit (loss) per share	0,56	- 0,46	0,13	- 0,10

		PLN THOUSAND		EUR THOUSAND	
		as of 31.12.2017	31.12.2016	as of 31.12.2017	31.12.2016
XII	Total assets	122 391	111 169	29 344	25 129
XIII	Long-term liabilities	20 697	6 949	4 962	1 571
XIV	Short-term liabilities	34 113	40 713	8 179	9 203
XV	Equity	67 581	63 508	16 203	14 355
XVI	Share capital	732	732	176	165
XVII	Weighted average number of shares	7 320 000	7 320 000	7 320 000	7 320 000
XVIII	Book value and diluted book value per share	9,23	8,68	2,21	1,96

1.2 The rules applied for converting financial data

Financial data in EUR have been calculated according to the following rules:

- ✓ individual items of assets and liabilities - according to the exchange rate as at 31.12.2017 – 4.1709 PLN/EUR,
  31.12.2016 – 4.424 PLN/EUR, 31.12.2015 – 4.2615 PLN/EUR
- ✓ individual items of the statement of comprehensive income and statement of cash flows - at the rate being the arithmetic average of the rates determined by the National Bank of Poland on the last day of each month of the year:
- for the period from 1 January 2017 to 31 December 2017: 4.2447 PLN/EUR
- for the period from 1 January 2016 to 31 December 2016: 4.3757 PLN/EUR
- for the period from 1 January 2015 to 31 December 2015: 4.1848 PLN/EUR

1.3 Balance sheet

Assets

	Note	As of 31.12.2017	As of 31.12.2016
FIXED ASSETS			
Tangible assets	12	2 248	3 205
Intangible assets	13	4 323	4 199
Participating interests in subordinated entities	14	29 895	19 495
Loans granted	19	3 585	5 167
Financial assets available for sale	15	0	0
Financial assets held to maturity	16	8 201	15 094
Long-term receivables	17	6 276	7 515
Deferred income tax assets	10	3 824	5 011
Total		58 352	59 686
CURRENT ASSETS			
Inventories	18	8 558	9 350
Loans granted	19	452	430
Trade receivables and other receivables	20,28	53 806	41 172
Financial assets held to maturity	16	0	0
Cash	21	1 223	531
Total		64 039	51 483
TOTAL ASSETS		**122 391**	**111 169**

Liabilities

	Note	As of 31.12.2017	As of 31.12.2016
Equity			
Share capital	22	732	732
Share premium	23	38 024	38 024
Revaluation reserve		0	0
Retained earnings	24	28 825	24 751
Total		67 581	63 507
Long-term liabilities			
Deferred income tax reserve	10	3 976	3 714
Provisions for liabilities	25	337	429
Other long-term liabilities	26	16 385	2 806
Total		20 698	6 949
Short-term liabilities			
Trade liabilities and other liabilities	27,28	33 361	37 770
Other financial liabilities – credits	26	377	2 708
Provisions for liabilities	25	374	235
Total		34 112	40 713
TOTAL LIABILITIES		**122 391**	**111 169**

1.4 Profit and loss account

Profit and loss account

	Note	01.01 - 31.12.2017	01.01 - 31.12.2016
Sales revenues	4	113 938	97 792
Costs of products, goods and materials sold	5	-83 780	-74 892
Gross profit (loss) from sales		30 158	22 900
Other operating income	6	962	1 167
Costs of sales	5	-18 284	-17 614
General administrative expenses	5	-8 446	-6 419
Other operating expenses	7	-184	-3 009
Operating income (loss)		4 206	-2 975
Financial income	8	1 462	197
Financial costs	9	-147	-1 291
Result on financing activities		1 315	-1 094
Profit (loss) before tax		5 521	-4 069
Income tax:	10	-1 446	728
Current income tax			
Deferred income tax		-1 446	728
Net profit (loss)		4 075	-3 341
EBITDA		6 023	-1 211
Profit (loss) per share		0,56	- 0,46
Ordinary and diluted	11	0,56	- 0,46

1.5 Statement of comprehensive income

Statement of comprehensive income

	Note	01.01 - 31.12.2017	01.01 - 31.12.2016
Net profit (loss) for the period		4 075	-3 341
Items that may in future be classified as a result:			
Financial assets available for sale	15		
Deferred tax on other comprehensive income			
The total of the components of other comprehensive income		0	0
Comprehensive income for the period		4 075	-3 341
Comprehensive income (loss) per share		0,56	-0,46
Ordinary and diluted		0,56	-0,46

1.6 Statement of cash flows

Statement of cash flows

	01.01-31.12.2017	01.01-31.12.2016
Cash flows from operating activities		
Profit before tax	5 520	-4 070
Adjustments	372	9 319
Depreciation and amortisation	1 818	1 765
Interests	-507	117
Result on investing activities	12	-542
Change in inventories	792	2 668
Change in receivables	-11 392	-1 621
Change in liabilities and reserves	9 649	6 772
Other	-	160
Total	5 892	5 249
Cash flows from investing activities		
Inflows	1 230	1 264
Disposal of intangible and tangible fixed assets	296	1 069
Repayment of loans	934	195
Outflows	-3 523	-3 067
Purchases of intangible and fixed tangible assets	-1 293	-1 217
Loans granted	-2 230	-1 780
Shares acquisition/share capital increase in a subsidiary	0	-70
Total	-2 293	-1 803
Cash flow from financing activities		
Inflows	4	15
Interests received	4	16
Outflows	-2 911	-7 107
Repayment of credits and loans	-2 331	-6 397
Financial lease payments	-433	-435
Interests paid	-147	-275
Total	-2 907	-7 092
Change in cash	**692**	**-3 646**
Cash at the beginning of the period	531	4 177
Cash at the end of the period	**1 223**	**531**

1.7 Statement of changes in equity

For the period from 1 January to 31 December 2017

	Called up share capital	Share premium	Retained earnings	Revaluation reserve	Shares purchased for the purpose of redemption	TOTAL
As of 1 January 2017	**732**	**38 024**	**24 751**	**0**	**0**	**63 507**
Profit/loss for the period			4 074			**4 074**
Financial assets available for sale adjusted by deferred income tax						**0**
Total of comprehensive income	0	0	4 074	0	0	4 074
Dividend						0
As at 31 December 2017	**732**	**38 024**	**28 825**	**0**	**0**	**67 582**

For the period from 1 January to 31 December 2016

	Called up share capital	Share premium	Retained earnings	Revaluation reserve	Shares purchased for the purpose of redemption	TOTAL
As of 1 January 2016	**732**	**38 024**	**28 092**	**0**	**0**	**66 848**
Profit/loss for the period			-3 341			**-3 341**
Financial assets available for sale adjusted by deferred income tax						**0**
Total of comprehensive income	0	0	-3 341	0	0	-3 341
Dividend						0
As at 31 December 2016	**732**	**38 024**	**24 751**	**0**	**0**	**63 507**

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

2.1 Key information

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

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

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

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

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

The Company is the parent company of ARCUS S.A. Group and prepares consolidated financial statements.

Data in the financial statement have been presented in PLN thousand unless otherwise indicated. Polish zloty (PLN) shall be the functional and reporting currency of the Company.

Core business of ARCUS S.A. involves the following areas:

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

In the reporting period, the Company did not discontinue any type of business.

Management Board

As at 1 January 2017, 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 2017 and as at the day of the financial statement hereof publication, the composition of the Management Board was as follows:

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

Supervisory Board

According to ARCUS S.A. Articles of Association, the Company's Supervisory Board shall be composed of 5 to 10 members. As at 1 January 2017, the composition of the Supervisory Board was as follows:

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

As at 31 December 2017 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
- 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

2.2 Statement of the Management Board

Statement on the reliability of the separate financial statement

On the basis of the of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of non-member state (as amended), the Management Board of ARCUS S.A. hereby declares that to the best of its knowledge the separate annual financial statement hereof as well as comparative data have been prepared in accordance with applicable accounting rules and present fairly and clearly the economic and financial situation of ARCUS S.A. and its financial result, and that the annual Management Board's report on ARCUS S.A. activities comprises a comprehensive view of development and achievements of ARCUS S.A., including description of fundamental risks.

Statement regarding the entity authorised to audit the financial statements

According to the Articles of Association of the Company, (as allowed under Art. 146.1 of the Commercial Companies Code), the auditor is selected by the Supervisory Board, which annually selects a statutory auditor in accordance with the applicable regulations and professional standards, observing the principle that the change should be made at least every 5 years. The change of the statutory auditor is understood primarily as a change of a key person signing the opinion and the report.

The Management Board of ARCUS S.A. hereby declares that DORADCA Auditors Sp. z o.o. is authorized to audit the financial statement and has been selected in accordance with the law. DORADCA Auditors Sp. z o.o. and its statutory auditors met the conditions for issuing an impartial and independent audit opinion in accordance with applicable regulations and professional standards. The statutory auditor was selected by the resolution of the Supervisory Board of 9 June 2017 to audit and review the separate and consolidated financial statements of ARCUS S.A.

………………………
Michał Czeredys
President of the Management Board

…………………………..
Rafał Czeredys
Member of the Management Board

3 ACCOUNTING PRINCIPLES

3.1 Basis for preparing financial information

Presented financial statement has been prepared for the year ended 31 December 2017. The comparative data cover the year ended on 31 December 2016. The Company's financial year is the calendar year. In the reporting period, there were no changes in the applied accounting principles. The financial statement has been prepared based on the assumption that the Company will continue as a going concern in the foreseeable future. As at the date of financial statement preparation, there are no circumstances indicating a threat to the continuation of business operations.

ARCUS S.A. is a Parent Company of ARCUS S.A. Group and prepares consolidated financial statements. The Company's Group is composed of the following subsidiary undertakings: T-matic Systems S.A., Geotik Sp. z o.o., Arcus Systemy Informatyczne Sp. z o.o., Docusoft Sp. z o.o., Durau Sp. z o.o., LMT (subsidiary of Durau) and Arcus Kazachstan Sp. z o.o.

3.2 Statement of compliance

Presented financial statement covering the period from 1 January 2017 to 31 December 2017 and comparative data for the period from 1 January 2016 to 31 December 2016 has been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union and includes the information required by the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities.

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

The accounting policies and calculation methods adopted for the preparation of this financial statement are consistent with the principles set out in the approved financial statement of Arcus S.A. prepared in accordance with IFRS for the year ended 31 December 2016.

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

- IFRS 9 "Financial Instruments" published on 24 July 2014 and effective for annual periods beginning on 1 January 2018;
- IFRS 15 "Revenue from Contracts with Customers" published on 28 May 2014, effective for annual periods beginning on or after 1 January 2018;
- Amendments to IFRS 16 on leasing accounting - a standard not yet adopted by the European Commission; the date of the planned approval has not been determined;
- IFRS 14 "Regulatory Deferral Accounts" was published on 30 January 2014; until the date of publication of this financial statement not approved by the EU; effective for annual periods beginning on or after 1 January 2016;
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - sale or transfers of assets between the investor and the associate or joint venture (the date of entry into force has been postponed indefinitely);
- Amendments to IAS 12 "Recognition of deferred income assets for unrealized losses" - effective for annual periods beginning on or after 1 January 2017; until the date of publication of this financial statement not approved by the EU;
- Amendments to IAS 7 "Disclosure Initiative" - requirement to disclose the reconciliation of changes in liabilities resulting from financing activities, the division into changes being cash and non-cash flows -

effective for annual periods beginning on or after 1 January 2017; until the date of publication of the financial statement hereof not approved by the EU.

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

3.4 Accounting judgments and estimates

The preparation of the financial statement requires the Company's Management Board to make estimates, as some of the information contained in the financial statements cannot be measured precisely. The Management Board reviews these estimates based on changes in the factors taken into account for the purposes of their calculation, new information or past experience. Therefore, the estimates made as at 31 December 2017 may be revised in the future.
Professional judgment made as at 31 December 2017 refers to provisions for claims and litigations and contingent liabilities. Professional judgment is also used in the assessment of the risk related to the repayment of overdue receivables - the Company assesses write-downs on overdue receivables at each balance sheet date, taking into account the potential risk of a significant delay in their repayment.

Contracts for the supply of goods and maintenance of equipment

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

Depreciation rates

Depreciation rates are determined based on the estimated economic useful life of tangible fixed assets and intangible assets. The Company annually reviews the economic useful life periods based on current estimates.

Impairments losses on tangible assets

The Company reviews the assets for potential impairment at least once a year. At the same time, if there are indications of impairment during the financial year, a test and revaluation write-offs are made at the time of their occurrence. The estimates of impairment in subsidiary undertakings are based on three-year financial forecasts adopted by the Management Board. Information about the performed tests is presented in Note 3.5.3.

Impairment losses on inventories

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

Provisions for impairment of receivables

The Company recognizes provisions for impairment of overdue receivables or doubtful receivables, including claims for compensation for unreasonable performance of the guarantee. Depending on the assessment of the collectability of these receivables, the value of these assets may change.

Provisions for liabilities

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

Deferred income tax assets

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

3.5 Outline of key accounting principles

3.5.1 Intangible assets

Intangible assets include those assets of a company which do not have a physical character, are identifiable, can be measured reliably and in the future will result in economic benefits to the Company. Intangible assets are recognized in the books at purchase prices and are amortized on a straight-line basis over their economic useful lives.

The Company depreciates its intangible assets in the following periods:

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

Expenditures on intangible assets which do not result in their improvement or extension of their useful life are charged to expenses as they are incurred. As at the balance sheet date, intangible assets are measured at cost less any revaluation write-offs and any impairment losses. ARCUS S.A. does not hold any intangible assets with indefinite useful life. Depreciation methods and useful lives of intangible assets are subject to verification at each balance sheet date. ARCUS S.A. does not hold any intangible assets classified as “held for sale”. In the reporting period the Company has not recognized any impairment losses on intangible assets.

3.5.2 Fixed tangible assets

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

Group 1	Buildings	10 years
Group 4	Machines and equipment	6 to 10 years
	Excluding: computer hardware	3 years
Group 6	Technical devices	5 years
Group 7	Means of transport.	5 years
Group 8	Tools, devices, movables and equipment	5 to 7 years

Costs incurred for the renovation, which do not result in the improvement or extension of the useful life of fixed asset are recognized as expense as they are incurred. At the balance sheet date, fixed assets and fixed assets under construction are measured at cost less any potential impairment losses. In case of exchange of fixed assets the price of an acquisition is measured at fair value, if the exchange transaction has commercial substance. ARCUS S.A. does not hold any intangible assets with indefinite useful life. Depreciation methods and useful lives of fixed tangible assets are subject to verification at each balance sheet date. ARCUS S.A. does not hold any fixed tangible assets classified as "held for sale". In the reporting period the Company has not recognized any impairment losses on fixed tangible assets. In the reporting period no restrictions were recognized as to the legal title to fixed tangible assets.

3.5.3 Financial assets

Financial instruments are classified in the following categories:

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

Held-to-maturity financial assets are the assets other than derivatives with fixed or determinable payments and fixed maturities, which the Company intends and has the ability to hold to maturity. Held-to-maturity financial assets are measured at amortized cost using the effective interest rate method. Financial assets measured at fair value through profit or loss are the assets acquired for resale and with the aim of generating economic benefits on short-term price changes and fluctuations of other market factors or short duration of the acquired instrument, as well as other financial assets, regardless of the intentions assumed while concluding the contract, if they represent a component of a portfolio of similar financial assets for which there is a high probability of economic benefits in a short-term. The fair value is considered the price that would be received by the entity for the sale of an asset or would be paid by the entity for the transferred liabilities in a routine transaction made between market participants at the measurement date.

Financial assets at fair value through profit or loss are measured at fair value taking into account their market value at the balance sheet date, excluding transaction costs. Changes in the value of these financial instruments are recognized in the profit and loss account as financial income or expenses. ARCUS S.A. has no financial assets at fair value through profit or loss. Loans granted and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Granted loans and receivables are classified as current assets if their maturity does not exceed 12 months from the balance sheet date. Granted loans and receivables with maturities exceeding 12 months from the balance sheet date are classified as fixed assets. ARCUS S.A. granted loans to the following subsidiary undertakings: Arcus Systemy Informatyczne Sp. z o.o., T-matic Systems S.A., Docusoft Sp. z o.o. and Durau Sp. z o.o. Loans and receivables are measured at amortized cost using the effective interest rate.

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

Subsidiaries

In the financial statement, investments in subsidiaries not classified as held-for-sale, in accordance with IFRS 5, are recognized at cost in accordance with IAS 27 "Separate Financial Statement", less impairment loss in accordance with IAS 36 "Impairment of assets" where impairment loss is estimated by comparing the carrying value with the higher of the two amounts: fair value and value in use.

As at 31 December 2017, the verification and tests of the recoverable amount of financial assets related to participating interests in subsidiaries were carried out: Arcus Systemy Informatyczne Sp. z o.o., Docusoft Sp. z o. o., T-matic Systems S.A., Durau Sp. z o.o. In 2017 Arcus Kazachstan did not perform business operations and its value was estimated on the basis of separate methodology. In the case of newly acquired company - Geotik Sp. z o.o., the valuation carried out for the purposes of the share purchase transaction was used.

Methodology for determination of recoverable amount

	Description of applied measurement methodology
Arcus Systemy Informatyczne Sp. z o.o.	Discounted cash-flow method (DCF) on the basis of FCFF (Free Cash Flow to Firm)
T-matic Systems SA	Discounted cash-flow method (DCF) on the basis of FCFF (Free Cash Flow to Firm)
Docusoft Sp. z o. o.	Discounted cash-flow method (DCF) on the basis of FCFF (Free Cash Flow to Firm)
Durau Sp. z o.o.	Discounted cash-flow method (DCF) on the basis of FCFF (Free Cash Flow to Firm)
Arcus Kazachstan	replacement value
Geotik Sp. z o.o.	Valuation based on the income method applied for the purchase of shares on 22 December 2017

For the purpose of assessment of the value of financial assets corresponding to the values in the companies, the going concern principle and the principle of growth markets were used. According to these assumptions, verifications of business models of particular entities were executed with particular emphasis on their ability to generate revenues on core business, margins, financial results and cash flows. The valuation of the participating interests in particular entities was based on the following assumptions:

1. The valuation methodology is analogous to the methodology used in the preceding valuation, i.e. as at 31 December 2016, which was included in the reports for 2016.
2. The updates, compared to the previous valuation, include:
    a. update of operational and financial projections for the next 3 years, i.e. for the period 2018-2019
    b. update of parameters used for calculation of the weighted average cost of capital (WACC) and responsible for the increase of uncertainty in the implementation of key contracts (risk premiums) and increase of cost of capital based on the current terms for 10-year Treasury bonds.
3. Analysis of financial statements of companies for the years 2016-2017 and analytical compilation of data on individual balance sheet items.
4. Analysis of the implementation of the annual financial plans of companies for the year 2017.
5. Annual financial projections of companies for the year 2018.
6. The strategies of companies for the years 2018-2020.
7. Macroeconomic assumptions and projections for individual market segments.
8. For companies operating in multiple segments, a separate valuation based on economic performance and assets and liabilities assigned to the respective segments is made.
9. For individual valuations of participating interests, the sensitivity analysis is performed in respect of the significant factors affecting the business activity, including:
    a. weighted average cost of capital
    b. growth rates for residual value calculation.
10. In terms of volatility of exchange rates of EUR/PLN, USD/PLN and CPI inflation, an assessment was made as to the impact on the estimated value of companies. In the event a significant impact was identified, the potential value adjustments were determined.
11. Verification of the value of participating interests in companies is carried out with consideration of weighted average cost of capital plus additional premiums covering market risk premiums and specific risk premiums.

According to the tests carried out as at 31 December 2017, there were no indications for revaluation of the participating interests in Arcus Systemy Informatyczne Sp. z o.o., Docusoft Sp. z o. o., T-matic Systems S.A., Durau Sp. z o.o. The estimates have shown that future cash flows will be at least equal to the value of participating interests as at the balance sheet date. The test was performed for both participating interests in individual companies and for the separated segments of their business. With reference to Geotik Sp. z o.o., whose shares were acquired on 22 December 2017, the value calculated using the income method (including DCF) for the needs of the transaction was taken into account. With regard to Arcus Kazakhstan Sp. z o.o. an impairment loss was recognized on the basis of the estimated value in use. Additionally, an analysis of the sensitivity of valuation of particular companies and value of participating interest and shares is performed. However, it must be borne in mind that, depending on the assessment of the prospects of particular companies and respective segments, the value of these assets for Arcus S.A., may change.

Sensitivity analysis

Sensitivity analysis did not disclose the significant risk of decreasing the valuation of individual companies or selected segments except for the valuation of T-Matic shares. In the case of estimating the value of T T-matic Systems SA, the considerable importance of projections for the years 2018-2020 shall be taken into account. The planned increase in sales revenues compared to previous periods, particularly related to the telemetry segment, is an additional uncertainty factor in respect of estimates. Projections of the energy market in Poland and the EU requirements for the implementation of smart meters are the basis for recognizing T-matic Systems SA projections as feasible.

For the purposes of T-matic Systems SA valuation, the projections were based on contracts for which there is a very high probability of performance. Contracts for smart meters with lower probability of execution were not included in projections used for valuation purposes. The assumed share of T-matic Systems SA in the market / contracts is <15%, which should be considered a very conservative assumption.

Because of a risk of non-execution / organization of tenders for implementation of solutions in the area of smart meters with regard to the valuation of T-Matics, as well as potential problems with financing IT contracts with EU funds in relation to the valuation of Arcus Systemy Informatyczne and uncertainty as to the development of energy broker market - in relation to Durau valuation, for valuation purposes, the market risk premium and the specific risk premium were increased.

T-Matic Systems SA

Valuation according to DCF (PLN thousand)

Forecasting period	0	1	2	3
Forecasting year		2018	2019	2020
CF		652,6	8 025,5	5 837,9
interest expenses + tax adjustment		-309,5	1 383,3	1 096,1
return of debts		0,0	0,0	0,0
new debts		0,0	0,0	0,0
dividend		0,0	0,0	0,0
FCFE		343,1	9 408,8	6 934,0
FCFF		652,6	8 025,5	5 837,9
FCFF		652,6	8 025,5	5 837,9
DCF		578,0	6 286,0	4 039,0

(PLN thousand)

The current value of free cash flows FCFF	6 864,0
Residual value	62 745,0
Current residual value	26 250,1
Gross value of the company	33 114,1
Net debt	9 894,2
Income value	23 219,9
Value of Arcus share	17 352,2

Financial projections 3y: 2018-2020

(PLN thousand)	2018	2019	2020
Revenues - total	9 834,9	183 380,2	130 496,8
Costs - total	8 870,2	175 039,7	124 560,0
EBIT[1]	964,6	8 340,5	5 936,9
Net profit	532,6	7 905,5	5 717,9

[1] EBIT- Earnings Before Interest & Taxes

Change WACC	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Valuation (PLN thousand)	18 966,7	23 005,2	25 403,0	28 115,2	31 203,2	34 745,5	43 629,5
change %	-32,5%	-18,2%	-9,6%		11,0%	23,6%	55,2%
change (PLN thousand)	-9 148,5	-5 110,0	-2 712,2		3 088,1	6 630,3	15 514,3

Change g	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Value g	4,0%	3,0%	2,5%	2,0%	1,5%	1,0%	0,0%
Valuation (PLN thousand)	37 911,0	32 345,7	30 095,5	28 115,2	26 358,8	24 790,6	22 109,0
change %	34,8%	15,0%	7,0%		-6,2%	-11,8%	-21,4%
change (PLN thousand)	9 795,8	4 230,6	1 980,4	0,0	-1 756,3	-3 324,6	-6 006,1

Arcus Systemy Informatyczne Sp. z o.o.

Forecasting period	1	2	3
Forecasting year	2018	2019	2020
CF	3 445,6	4 541,3	5 738,4
interest expenses + tax adjustment	113,2	120,0	127,4
return of debts	0,0	0,0	0,0
new debts	0,0	0,0	0,0
dividend	0,0	0,0	0,0
FCFE	3 558,8	4 661,3	5 865,7
FCFF	3 445,6	4 541,3	5 738,4
FCFF	3 445,6	4 541,3	5 738,4
DCF	3 072,8	3 608,8	4 061,0

(PLN million)	
The current value of free cash flows FCFF	6 681,6
Residual value	68 810,6
Current residual value	30 520,7
Gross value of the company	37 202,3
Net debt	1 450,5
Income value	35 751,8
Value of Arcus share	18 948,4

Financial projections 3y: 2018-2020

(PLN thousand)	2018	2019	2020
Revenues - total	45 979,5	35 000,0	37 000,0
Costs - total	42 125,7	29 842,6	30 382,8
EBIT[1]	3 853,8	5 157,4	6 617,2
Net profit	3 109,6	4 171,7	5 361,4

[1] *EBIT- Earnings Before Interest & Taxes*

Change WACC	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Valuation (PLN thousand)	26 807,7	30 753,5	33 098,2	35 751,8	38 774,5	42 243,5	50 949,7
change %	-25,0%	-14,0%	-7,4%		8,5%	18,2%	42,5%
change (PLN thousand)	-8 944,0	-4 998,2	-2 653,5		3 022,8	6 491,8	15 197,9

Change g	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Value g	4,0%	3,0%	2,5%	2,0%	1,5%	1,0%	0,0%
Valuation (PLN thousand)	45 380,6	39 910,2	37 698,4	35 751,8	34 025,4	32 483,8	29 848,0
change %	26,9%	11,6%	5,4%		-4,8%	-9,1%	-16,5%
change (PLN thousand)	9 628,9	4 158,5	1 946,6	0,0	-1 726,4	-3 268,0	-5 903,8

Docusoft Sp. z o.o.

Valuation according to DCF (PLN thousand)

Forecasting period	1	2	3
Forecasting year	2018	2019	2020
CF	978,6	920,3	966,4
interest expenses + tax adjustment	54,1	56,8	59,7
return of debts	0,0	0,0	0,0
new debts	0,0	0,0	0,0
dividend	0,0	0,0	0,0
FCFE	1 032,8	977,2	1 026,0
FCFF	978,6	920,3	966,4
FCFF	978,6	920,3	966,4
DCF	872,8	731,4	683,9

(PLN million)	
The current value of free cash flows FCFF	1 604,1
Residual value	11 587,9
Current residual value	5 139,8
Gross value of the company	6 743,9
Net debt	1 092,5
Income value	5 651,4
Value of Arcus share	4 914,4

Financial projections 3y: 2018-2020

(PLN thousand)	2018	2019	2020
Revenues - total	1 960,0	2 058,0	2 160,9
Costs - total	1 395,2	1 465,0	1 538,2
EBIT[1]	564,8	593,0	622,7
Net profit	510,6	428,9	450,4

[1] *EBIT- Earnings Before Interest & Taxes*

Change WACC	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Valuation (PLN thousand)	4 134,7	4 804,4	5 201,9	5 651,4	6 163,1	6 750,1	8 221,7
change %	-26,8%	-15,0%	-8,0%		9,1%	19,4%	45,5%
change (PLN thousand)	-1 516,7	-847,0	-449,5		511,7	1 098,7	2 570,4

Change g	2pp	1pp	0,5pp	0pp	-0,5pp	-1pp	-2pp
Value g	4,0%	3,0%	2,5%	2,0%	1,5%	1,0%	0,0%
Valuation (PLN thousand)	7 272,9	6 351,7	5 979,2	5 651,4	5 360,7	5 101,1	4 657,2
change %	28,7%	12,4%	5,8%		-5,1%	-9,7%	-17,6%
change (PLN thousand)	1 621,5	700,3	327,8	0,0	-290,7	-550,3	-994,2

Durau Sp. z o.o.

Forecasting period	1	2	3
Forecasting year	2018	2019	2020
CF	389,9	347,8	354,8
interest expenses + tax adjustment	0,0	20,0	20,4
return of debts	0,0	0,0	0,0
new debts	0,0	0,0	0,0
dividend	0,0	0,0	0,0
FCFE	389,9	367,8	375,2
FCFF	389,9	347,8	354,8
FCFF	389,9	347,8	354,8

DCF	347,7	276,4	251,1

(PLN million)	
The current value of free cash flows FCFF	624,1
Residual value	4 254,5
Current residual value	1 887,1
Gross value of the company	2 511,2
Net debt	1 863,0
Income value	648,2
Value of Arcus share	545,2

Financial projections 3y: 2018-2020

(PLN thousand)	**2018**	**2019**	**2020**
Revenues - total	1 551,5	1 582,5	1 614,1
Costs - total	1 161,5	1 234,8	1 259,5
EBIT[1]	389,9	347,7	354,7
Net profit	389,9	297,8	303,8

[1] *EBIT- Earnings Before Interest & Taxes*

Change WACC	**2pp**	**1pp**	**0,5pp**	**0pp**	**-0,5pp**	**-1pp**	**-2pp**
Valuation (PLN thousand)	90,6	336,9	483,0	648,2	836,3	1 052,0	1 592,7
change %	-86,0%	-48,0%	-25,5%		29,0%	62,3%	145,7%
change (PLN thousand)	-557,6	-311,4	-165,2		188,1	403,8	944,5

Change g	**2pp**	**1pp**	**0,5pp**	**0pp**	**-0,5pp**	**-1pp**	**-2pp**
Value g	4,0%	3,0%	2,5%	2,0%	1,5%	1,0%	0,0%
Valuation (PLN thousand)	1 243,6	905,4	768,6	648,2	541,5	446,2	283,2
change %	91,8%	39,7%	18,6%		-16,5%	-31,2%	-56,3%
change (PLN thousand)	595,3	257,1	120,4	0,0	-106,7	-202,1	-365,0

Weighted Average Cost of Capital

Risk-free rate (yield on 10-year Treasury bonds)	2,7%	2,7%	2,7%	2,7%
Risk premium on the market	6,0%	6,0%	6,0%	6,0%
Specific risk premium	4,0%	4,0%	4,0%	4,0%
Tax rate	19,0%	19,0%	19,0%	19,0%
Beta	1,32	1,25	1,21	1,18
Credit margin	4,5%	4,5%	4,5%	4,5%
Cost of debt in Arcus Group	7,2%	7,2%	7,2%	7,2%
Cost of debt to external funds	10,2%	10,2%	10,2%	10,2%
Share of debt in Arcus Group	100,0%	100,0%	100,0%	100,0%
Share of debt to external funds	0,0%	0,0%	0,0%	0,0%
Average cost of debt	7,20%	7,20%	7,20%	7,20%
After-tax cost of debt	5,83%	5,83%	5,83%	5,83%
Cost of equity	14,62%	14,21%	13,95%	13,76%

Ud	28,3%	23,7%	20,4%	18,0%
Ue	71,7%	76,3%	79,6%	82,0%
WACC	12,13%	12,22%	12,29%	12,34%
Number of days in the reporting period	365,00	365,00	365,00	365,00
Discount rate	1,12	1,26	1,41	1,59

Beta coefficient calculation				
Unlevered beta	1,00	1,00	1,00	1,00
Debt/Equity	0,39	0,31	0,26	0,22
Levered bets	1,32	1,25	1,21	1,18

	2018	**2019**	**2020**	**2021**
WACC	12,1%	12,2%	12,3%	12,3%

3.5.4 Inventories

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

3.5.5 Trade receivables and other receivables

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

3.5.6 Impairment losses on assets

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

3.5.7 Cash and cash equivalents

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

3.5.8 Equity

3.5.8.1 Share capital

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

3.5.8.2 Statutory capital reserve resulting from the share premium

In the second half of 2007, ARCUS S.A. issued B-series shares. The issue price per share was PLN 17. As a result of the issue, 2 296 681 shares were subscribed for. The statutory capital reserve resulting from share premium amounted to 38 024 thousand PLN.

3.5.8.3 Retained earnings

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

3.5.9 Credits and loans

Credits and loans are recognized with interests due. Exceptions are overdrafts for which no repayment schedule is set. For this type of loan, the costs associated with its disbursement and other fees shall be charged to financial expenses in the period they are incurred. In other cases, financial expenses, including commissions paid at the time of repayment or redemption and direct borrowing costs, are recognized in the profit and loss account using the amortized cost and increase the book value of the instrument with consideration of the repayments made in the current period.

3.5.10 Trade and other liabilities

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

3.5.11 Reserves and provisions

Reserves and provisions are created when the Company has an existing legal or constructive obligation resulting from past events and it is probable that fulfillment of this obligation will result in the outflow of resources embodying economic benefits and a reliable estimate of the amount of the obligation can be made but the final amount or the maturity of this obligation are uncertain. Where the impact of the time value of money is material, the amount of the provision is determined by discounting the projected future cash flows to the present value, using a discount rate reflecting current market assessments of the value of money and risks associated with the obligation. Increases in reserves based on the discount rate method, are recognized as borrowing costs over time. If the Company expects that the costs covered by the provision will be recovered in any way, such reimbursement is recognized as a separate asset but only when it is certain that the cost will be recovered. Provisions for warranty costs are recognized upon the sale of products in accordance with the Management's best estimate of future costs to be incurred by the Company during the warranty period without the possibility of transferring them to the manufacturer. The value of the provisions is estimated at each balance sheet date based on historical data on the costs of warranty repairs. Provisions for specific risks are created when there is a probable outflow of economic benefits from the entity, and the estimate can be reliably carried out.

3.5.12 Employee benefits

As far as employee benefits are concerned, the Company is not a party to any wage agreements or collective agreements. The company also does not have pension schemes managed directly by the company or by external funds. The costs of employee benefits include remuneration paid in accordance with the terms and conditions of employment contracts concluded with individual employees. According to the applicable rules on remuneration, employees are entitled to retirement and disability severance pay. The Company does not establish assets that might be used for future settlement of liabilities associated with retirement benefits. The Company recognizes a provision for future liabilities on severance pay in order to allocate costs to the periods to which they relate. The value of future retirement liabilities of the Company is calculated by a qualified actuary using the method of accumulated future benefits, with consideration of the projected increase in the remuneration constituting the basis for calculation of future benefits, the assumed discount rate, the probability of reaching by an employee of a retirement age (the probability of achieving the rights to one-time retirement benefit), the likelihood of disability of an employee before reaching the retirement age (the probability of achieving the rights to one-time disability severance pay), under the condition of continuance of employment contract with the current employer. The amount of the provision is reviewed once a year - at the end of a given financial year. Actuarial profits and losses are not recognized in equity because of their insignificance. In the event of termination of employment, employees of the Company are entitled to the benefits provided for by the applicable Polish labor laws, among other the equivalent for unused leave. The provision for the equivalent for unused leave is reviewed on the last day of the financial year and on the last day of the first half of the year.

3.5.13 Transactions in foreign currencies

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

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

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

3.5.14 Lease

Company as a lessee

Lease is classified as finance lease if the agreements transfer substantially all the risks and benefits resulting from the use of the leased asset to the lessee. Other leases are considered to be operating leases. Assets held under finance leases are recognized as assets of the Company and are measured at their acquisition at the present value of lease payments. The liability to the lessor is recognized in the balance sheet in other liabilities. Lease payments are divided into interest and equity parts. The interest part of the lease installment is recognized as the financial cost.

Company as a lessor
Assets transferred under financial lease are derecognized from fixed assets of the Company. The receivables from the lessee arising on this account are presented in the balance sheet under trade receivables and long-term receivables. The lease payments received are divided into interest and equity. The interest part of a lease installment is the income recognized in the group of income from sales of goods and materials.

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

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

3.5.17 Revenues
Sales revenues are recognized at the value of payments received or due for goods delivered or services provided within the normal course of business. Revenues shall be reduced by granted rebates; taxes in favor of third parties are not recognized as income. The sale of goods is recognized upon the delivery of goods and the transfer to the recipient of the significant risk associated with the delivery. Revenues from services are determined after the service is provided, and include the costs associated with the provision of the service. Dividend income is recognized at the time when the shareholders' right to receive payment is determined. **Other operating income and expenses.** Other operating income includes among others: profit from the sale of tangible fixed assets, received compensations related to losses on the insured property, or subsidies received as part of the EU programs (staff trainings and IT system implementation). Other operating costs include among others: loss on sale of tangible fixed assets, donations made, revaluation of non-financial assets or other costs associated with losses on company’s assets.

3.5.18 Financial revenues and borrowing costs
Financial revenues include: dividend income, interests on deposits and loans, foreign exchange gains, etc. Financial costs include: costs of the use of external financing that is credit interests, interests payable on finance lease agreements, foreign exchange losses, and impairment losses on financial assets. Borrowing costs are recognized as an expense in the profit and loss account in the period in which they are incurred. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, affect its initial value as part of the purchase price or production cost. These costs are subject to capitalization if it is probable that they will result in the future economic benefits for the entity, and the amount of these costs may be reliably determined.

3.5.19 Income tax
Income tax includes current and deferred tax. The current tax charge is calculated on the basis of the taxable income (taxable base) of the financial year. Tax profit (loss) differs from net accounting profit (loss) due to exclusion of taxable income and non-deductible expenses, items of expenses and revenue that will never be taxable. Tax charges are calculated based on tax rates applicable in a given fiscal year.
Deferred tax is calculated using the balance sheet method as a liability to be paid or reimbursed in the future based on differences between the carrying amounts of assets and liabilities and the corresponding tax amounts used to calculate the tax base. The deferred tax provision is recognized on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profits could be decreased by recognized temporary differences. The item of deferred tax asset or deferred tax provision is not created if the temporary difference arises from the initial recognition of goodwill or from the initial recognition

of another asset or liability in a transaction that has no impact on either the tax result or the accounting result. The value of deferred tax assets is reviewed at each balance sheet date and, if the expected future tax returns are not sufficient for the realization of an asset or a part thereof, an impairment loss is recognized. Deferred tax is calculated using tax rates that will apply when an asset item is realized or a liability becomes due. Deferred tax is recognized in profit or loss, except when it relates to items recognized directly in equity. In the latter case the deferred tax is also recognized directly in equity.

4 OPERATING SEGMENTS

An operating segment is a component of an entity:

- that engages in an economic activity thanks to which it may earn revenue and incur expenses (including revenue and expenses associated with transactions with other components of the same entity)
- whose performance is regularly reviewed by the entity's main operating decision-making body who uses that result to determine the allocation of resources to the segment and to evaluate segment performance, and
- for which separate financial information is available.

Business operations of ARCUS S.A. were divided into business segments for presentation purposes:

- IT segment covering sales and leasing of copying devices and equipment for mail and document lifecycle management (office solutions),
- Telemetry segment covering the sales, installation and commissioning of equipment for the measurement of utilities such as electricity, gas and water (transferred to a subsidiary at the end of a comparable period),
- services segment including after-sales services, repair, and integration services for ICT (information and communication technology).

Financial revenues and costs as well as taxes are not disclosed by segments, as these are monitored at the Company level and are not reported to decision makers at the segment level. Unassigned assets include shares in subsidiaries, assets held for sale, deferred tax assets and cash. Unassigned liabilities include equity, loans and a provision for income tax. Within the segments presented, the Company identified one customer, generating more than 10% of segment’s revenue. The Company's revenues for the twelve months of 2017 from this customer amounted to PLN 15,596 thousand and related to the IT segment.

Period from 01.01 to 31.12.2017	IT Segment	Telematics Segment	Other services Segment	Total
Revenues	94 926	62	18 950	113 938
Sales to external clients	94 926	62	18 950	113 938
Total segment's revenues	94 926	62	18 950	113 938
Segment's result	13 022	-47	-1 917	11 058
Unassigned costs	-	-	-	-6 853
Profit on operating activities	-	-	-	4 205
Net financial revenues	-	-	-	1 315
Profit before tax	-	-	-	5 520
Income tax	-	-	-	-1 446
Net profit for the financial year	-	-	-	4 074
Assets and liabilities				
Segment's assets	72 856	48	14 544	87 448
Unassigned assets	-	-	-	34 943
Total assets	-	-	-	122 391
Segment's liabilities	42 038	27	8 392	50 458
Unassigned liabilities	-	-	-	71 934
Total liabilities	-	-	-	122 391

Period from 01.01 to 31.12.2016	IT Segment	Telematics Segment	Other services Segment	Total
Revenues	82 908	170	14 713	97 791

Sales to external clients	82 908	170	14 713	97 791
Total segment's revenues	82 908	170	14 713	97 791
Segment's result	9 298	106	-4 239	5 165
Unassigned costs	-	-	-	-8 140
Profit on operating activities	-	-	-	-2 975
Net financial revenues	-	-	-	-1 094
Profit before tax	-	-	-	-4 069
Income tax	-	-	-	728
Net profit for the financial year	-	-	-	-3 341
Assets and liabilities				
Segment's assets	73 024	150	12 959	86 133
Unassigned assets	-	-	-	25 036
Total assets	-	-	-	111 169
Segment's liabilities	34 963	72	6 205	41 240
Unassigned liabilities	-	-	-	69 929
Total liabilities	-	-	-	111 169

Other information on segments - Geographic information

Sales revenues (PLN THOUSAND)

	01.01 - 31.12.2017	01.01 - 31.12.2016
Domestic sales	112 085	95 545
Foreign sales	853	2 247
Total	112 938	97 792

As at 31.12.2017 and 31.12.2016 the Company's assets were located mainly in Poland.

5 REVENUES STRUCTURE

Sales revenues (PLN THOUSAND)

	01.01 - 31.12.2017	01.01 - 31.12.2016
Revenues from sales of services	24 923	21 689
including interests achieved from the lease contracts		
Revenues from sales of goods	89 015	76 103
Total sales revenues	**113 938**	**97 792**
including to related entities		

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

6 COSTS BY NATURE

Costs by nature (PLN thousand)

	01.01 - 31.12.2017	01.01 - 31.12.2016
Consumption of materials and energy	13 445	12 039
Third-party services	12 371	11 359
Taxes and fees	1 388	1 169
Remunerations and Employee benefits	17 218	15 188
Amortisation and depreciation	1 819	1 765
Other sundry expenses	1 513	1 333
Value of goods sold	62 757	56 074
Total	110 511	98 927
Sales costs	18 284	17 614
General and administrative costs	8 446	6 419
Cost of sales	83 780	74 892

7 OTHER OPERATING REVENUES

Other operating revenues (PLN thousand)

	01.01 - 31.12.2017	01.01 - 31.12.2016
Profits from the sales of fixed assets		542
Received damages	500	
Payment of receivables for which an impairment loss was created in the previous years		
Subsidies received	149	149
Valuation related to the exchange of assets		
Other	313	476
Total	962	1 167

Subsidy for software received in previous years was recognized by the Company, to the amount of established depreciation write-down, in other operating revenues. In the reporting period the Company has recognized non-compete compensation.

8 OTHER OPERATING COSTS

Other operating costs

	01.01 - 31.12.2017	01.01 - 31.12.2016
Loss on the sale of fixed assets	12	
Revaluation of receivables and inventories	-	2 890
Other	172	119
Total	184	3 009

In 2016 an impairment loss on receivables and inventory was established in the amount of PLN 2 890 thousand which burdened the operating result. It was a one-off event resulting from a conservative assessment of these assets. In the reporting period, provisions for inventories in the amount of PLN 1,636 thousand were used, reducing the prices of goods in the warehouse, which had no effect on the result of the period.

9 FINANCIAL REVENUES

Financial revenues

	01.01 - 31.12.2017	01.01 - 31.12.2016
Interests on bank deposits	5	
Interests on loans granted	153	158
Other interests received	496	
Dividends received	-	-
Other - including foreign exchange rates differences	807	39
Total	1 461	197

In the reporting, the interests on early redeemed bonds issued by a subsidiary T-Matic, were recognized in the financial revenues.

10 FINANCIAL COSTS

Financial costs (PLN thousand)

	01.01 - 31.12.2017	01.01 - 31.12.2016
Interests	148	274
Impairment loss on financial assets		189
Foreign exchange rates differences		467
Other		359
Total	148	1 289

11 INCOME TAX

Income tax

	01.01 - 31.12.2017	01.01 - 31.12.2016
Income tax rate	19%	19%
Current income tax	0	0
Deferred income tax	-1 446	728
Related to temporary differences and reversal of temporary differences	-493	-521
Associated with the activation of tax losses	-953	1 249
Tax charge disclosed in the profit and loss account	-1 446	728

Current income tax

	01.01 - 31.12.2017	01.01 - 31.12.2016
Gross profit before tax	5 521	-4 070

Permanent differences in income tax	684	256
Temporary differences in income tax	-1 189	-2 762
Tax gross result	5 016	0
Use of previous years' loss	-5 016	0
Tax base	0	0
Current tax	0	0

Tax loss to be used

Year in which the loss was incurred	Value of loss to be used	Asset
2014	1 451	276
2016	4 761	905
Total	6 212	1 180

Deferred income tax	Balance sheet		Profit and loss account
	31.12.2017	31.12.2016	2017
Difference in the carrying and tax value of financial assets	2 370	2 578	208
Valuation of a repair-maintenance contract	1 035	806	-229
Other	571	330	-241
Provision for deferred tax	**3 976**	**3 714**	**-262**
Impairment losses on inventories	233	501	-268
Unpaid remunerations and contributions	404	75	329
Exchange rate differences from the valuation of settlements	-90	120	-210
Impairment loss on receivables	734	1 048	-314
Provision for retirement benefits	68	85	-17
Difference in the carrying and tax value of fixed and intangible assets	783	493	290
Tax loss	1 181	2 133	-952
Other	512	554	-42
Deferred tax assets	3 825	5 009	**-1 184**
Deferred income tax expense			-1 446

12 PROFIT PER SHARE

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

Profit per share	as at 31.12.2017	as at 31.12.2016
number of shares	7 320 000	7 320 000
Net profit (loss) (PLN thousand)	4 074	-3 341

Net profit (loss) and diluted profit (loss) per share - PLN	0,56	-0,46

13 DIVIDENDS PAID AND DECLARED FOR PAYMENT

In the reporting period, the Company did not pay or receive dividends.

14 FIXED ASSETS

Fixed assets

	31.12.2017	31.12.2016
Lands	0	0
Buildings and structures	224	365
Machines and devices	211,00	618,00
Means of transport	627,00	1 119,00
Other	871,00	879,00
Fixed assets - total	**1 933,00**	**2 981,00**
Fixed assets under construction	0,00	5,00
Prepayments for fixed assets	315,00	224,00
Fixed tangible assets	**2 248,00**	**3 210,00**

Changes in fixed assets in the period from 01.01 to 31.12.2017

	Buildings and structures	Machines and devices	Means of transport	Other
Net As at 01.01.2017	365,00	618,00	1 119,00	879,00
Gross value				
As at 01.01.2017	780,00	2 314,00	2 433,00	2 244,00
Increase - purchase		126,00		470,00
Decrease - sale and liquidation		321,00	133,00	145,00
As at 31.12.2017	780,00	2 119,00	2 300,00	2 569,00
Redemption				
As at 01.01.2017	415,00	1 696,00	1 314,00	1 365,00
Increase – amortization and depreciation	141,00	276,00	455,00	462,00
Decrease - sale and liquidation		64,00	96,00	129,00
As at 31.12.2017	556,00	1 908,00	1 673,00	1 698,00
Net as at 31.12.2017	224,00	211,00	627,00	871,00

Changes in fixed assets in the period from 01.01 to 31.12.2016

	Buildings and structures	Machines and devices	Means of transport	Other
Net As at 01.01.2016	415	592	1 449	618
Gross value				
As at 01.01.2016	664,00	2 341,00	2 737,00	2 864,00
Increase - purchase	116,00	311,00	491,00	939,00
Decrease - sale and liquidation		338,00	795,00	1 559,00
As at 31.12.2016	780,00	2 314,00	2 433,00	2 244,00
Redemption				

As at 01.01.2016	249,00	1 749,00	1 288,00	2 246,00
Increase – amortization and depreciation	166,00	273,00	543,00	441,00
Decrease - sale and liquidation		326,00	517,00	1 322,00
As at 31.12.2016	415,00	1 696,00	1 314,00	1 365,00
Net as at 31.12.2016	365,00	618,00	1 119,00	879,00

15 INATANGIBLE ASSETS

INTANGIBLE ASSETS

	31.12.2017	31.12.2016
Software	2 975,00	341,00
Licenses	245,00	481,00
Other	50,00	65,00
Total	**3 270,00**	**887,00**
Expenditures for intangible assets	1 053,00	3 312,00
Total	**4 323,00**	**4 199,00**

Change in intangible assets in the period from 01.01.2017 to 31.12.2017

	Software	Licenses	Other
Net as at 01.01.2017	**314,00**	**481,00**	**65,00**
Gross value			
As at 01.01.2017	1 216,00	2 092,00	143,00
Increase - purchase	2 867,00	8,00	2 875,00
Decrease - liquidation	0,00	8,00	0,00
As at 31.12.2017	4 083,00	2 092,00	143,00
Amortisation and depreciation			
As at 01.01.2017	875,00	1 611,00	78,00
Increase – amortization and depreciation	233,00	236,00	15,00
Decrease - liquidation	0,00	0,00	0,00
As at 31.12.2017	**1 108,00**	**1 847,00**	**93,00**
Net as at 31.12.2017	**2 975,00**	**245,00**	**50,00**

Change in intangible assets in the period from 01.01.2016 to 31.12.2016

	Software	Licenses	Other
Net as at 01.01.2016	338,00	719,00	3,00
Gross value			
As at 01.01.2016	1 143,00	2 151,00	131,00
Increase - purchase	104,00	135,00	71,00
Decrease - liquidation	31,00	194,00	59,00
As at 31.12.2016	1 216,00	2 092,00	143,00
Amortisation and depreciation			
As at 01.01.2016	805,00	1 432,00	127,00
Increase – amortization and depreciation	94,00	236,00	11,00
Decrease - liquidation	24,00	57,00	60,00
As at 31.12.2016	**875,00**	**1 611,00**	**78,00**
Net as at 31.12.2016	**341,00**	**481,00**	**65,00**

Arcus S.A. does not have assets with indefinite useful lives.

Expenditures on intangible assets mainly relate to the planned implementation of the lease-sales accounting module and the CRM module.

16 SHARES AND PARTICIPATING INTERESTS IN SUBSIDIARIES

Shares and participating interests in subsidiaries	%			
	Share in capital	Share in votes	31.12.2017	31.12.2016
Shares in T-matic Systems	74,7%	67,6%	9 005,0	9 005,0
Shares in Geotik	66,7%	66,7%	10 400,0	0,0
Shares in ASI	53,0%	53,0%	7 986,0	7 986,0
Shares in Durau	84,1%	84,1%	371,0	371,0
Shares in Docusoft	87,0%	90,1%	2 010,0	2 010,0
Shares in Arcus Kazachstan	100,0%	100,0%	123,0	123,0

As at 31 December 2017, ARCUS S.A. held shares and participating interests in subsidiaries representing the value of 29 895 thousand PLN (value as at the end of the comparable period - 19 495 thousand PLN). In the reporting period, ARCUS S.A. acquired from T-Matic Systems S.A. shares in Geotik Sp. z o.o. of value amounting to PLN 10,400 thousand, obtaining a 66.7% share in the capital of the acquired Company. The transaction was based on a datio in solutum agreement resulting in the repayment by T-Matic Systems S.A. of liabilities to ARCUS S.A. in connection with loans contracted and early redemption of bonds. In the opinion of the Management Board, as at 31 December 2017, there was no evidence of impairment loss on shares in subsidiaries, that is: Arcus Systemy Informatyczne Sp. z o.o., Docusoft Sp. z o. o., T-matic Systems SA, Durau Sp. z o.o. In four cases, annual valuation of entities and fair value measurements were performed, which did not disclose a need for revaluation, and disclosed that future cash flows would be at least equal to the value of shares at the balance sheet date. In case of Arcus Kazachstan Sp. z o.o. an impairment loss was recognized to the amount of PLN 123 thousand. Details regarding the impairment tests performed are presented in note 3.5.3. As at the balance sheet date, shares in subsidiaries are not subject to pledges or other restrictions on their disposal.

17 HELD-FOR-SALE FINANCIAL ASSETS

No items both at the end of the reporting period and the comparable period.

18 HELD-TO-MATURITY FINANCIAL ASSETS

Four-year, zero-coupon bonds issued by T-matic Systems on 30 June 2016 were recognized in held-to-maturity financial assets (fixed assets). The issue value of bonds was PLN 15,094 million. In the reporting period an early redemption of a part of bonds occurred (settled with the transaction of acquisition of shares in Geotik - see note 16 above). The issue value of bonds remaining after the redemption is PLN 8.2 million. As a rule, bonds are valued at amortized cost, but to accrued interest a prudent approach was applied and, as a result, they were not recognized in assets.

19 LONG-TERM RECEIVABLES

Long-term receivables	31.12.2017	31.12.2016
Trade receivables *	6 198,0	7 420,0
Other receivables	78,0	96,0
Total	**6 276,0**	**7 516,0**

*) Long-term trade receivables are receivables from lease of equipment to Clients

20 INVENTORIES

Inventories

	31.12.2017	31.12.2016
Gross goods	8 882,0	11 172,0
Impairment loss	-324,0	-1 960,0
Goods	8 558,0	9 212,0
Prepayments for deliveries	98,0	138,0
Total inventory	**8 656,0**	**9 350,0**

Inventory aging	up to 180 days	181 - 360 days	over 360 days	**Inventory - total**
as at 31.12.2017	5 243,00	1 972,00	1 667,0	8 882,0
as at31.12.2016	5 794,00	1 946,00	3 433,0	11 172,0

Inventories

	31.12.2017	31.12.2016
Inventory covered by the assignment agreement as a security of an overdraft	12 000,0	10 000,0

21 LOANS GRANTED TO GROUP'S COMPANIES

Loans granted to associates under consolidation

	31.12.2017	31.12.2016
Loans granted	2 854,0	4 562,0
including long-term loans	2 864,0	4 562,0
Interests on loans granted	731,0	242,0
Total	**3 585,0**	**4 804,0**
including to:		
T- matic Systems	516,0	2 287,0
Docusoft	1 092,0	1 047,0
Durau	1 863,0	1 470,0
ASI	114,0	

Loans granted to entities which are not Company's associates are recognized in current assets in the item „Loans granted".

22 TRADE AND OTHER RECEIVABLES

Trade and other receivables; income tax receivables

	31.12.2017	31.12.2016
Trade receivables from associates under consolidation	1 800,0	367,0
Trade receivables from other entities	47 922,0	39 317,0

Other receivables*	8 248,0	6 983,0
Impairment loss	-4 164,0	-5 495,0
Total	**53 806,0**	**41 172,0**

*Of which PLN 6 573 thousand are short-term lease receivables (PLN 6.2 million as at 31 December 2016).

Aging of trade receivables	up to 60 days	60 - 180 days	over 180 days	**Total**
as at 31.12.2017				
trade receivables within due date				41 484,0
overdue receivables	2 848	691	4 699,0	8 238,0
Trade receivables - total (gross)				**49 722,0**
as at 31.12.2016				
trade receivables within due date				31 445,0
overdue receivables	2 584	773	4 882	8 239,0
Trade receivables - total (gross)				**39 684,0**

Impairment loss on short-term receivables

	31.12.2017	31.12.2016
Opening balance	5 496,0	3 947,0
Recognition of impairment loss		1 557,0
Release of impairment loss		8,0
Use	1 332,0	0,0
Closing balance	**4 164,0**	**5 496,0**

Terms of transactions and transactions with associates are presented in Note 34. Description of the risks associated with trade receivables and other receivables as well as the Company's policy in terms of the management of these risks is presented in Note 2.4.

The increase in trade receivables at the end of the reporting period compared to the end of 2016 results from increased sales at the end of the reporting period.

23 CASH

Cash (PLN thousand)

	31.12.2017	31.12.2016
Cash at hand		
Cash in banks	1 223,0	531,0
Short-term deposits		
Total	**1 223,0**	**531,0**

24 EQUITY

Share capital

	Nominal value	Number of shares

as at 31.12.2015	0,10	7 320 000
as at 31.12.2016	0,10	7 320 000
as at 31.12.2017	0,10	7 320 000

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

On 14 June 2012, the Annual General Meeting of Shareholders adopted the Resolution No 26 regarding the purchase of own shares for the purpose of their redemption in the amount of up to 10% of the share capital and at a price not exceeding 6 PLN per share. Share buyback started in September 2012 – as at 31.12.2013 the Company held 75,157 own shares purchased at an average price of 3.63 PLN. Mentioned shares accounted for 1.02% of the total capital and 1.02% of the total number of votes at the AGM.

On 20 June 2013, under the Resolution No 12, the Ordinary General Meeting of Shareholders, decided to redeem the shares held by Arcus S.A. and to decrease the share capital. In accordance with Art. 456 of the Commercial Companies Code, the Company started convocation proceedings, which were completed in the 4th quarter of 2013 - no objections were raised by the creditors.

On 20 June 2014, the Annual General Meeting of Shareholders, by the Resolution No 20, decided on the conversion of all existing shares of A, B and C series into D series shares, and on the basis of the Resolution No 21 on redemption of 75 157 shares, which was confirmed by the District Court in September 2014.

Shareholding structure of ARCUS S.A. (according to the Company's knowledge) as at 31 December 2017

Shareholding structure of ARCUS S.A. (according to the Company's knowledge) as at 31 December 2017		PLN	%
	Number of shares	Value of share in the share capital	Share in the share capital
MMR Invest S.A.*	4 800 000,00	480 000,00	65,6
Other	2 520 000	252 000,00	34,4
Total	**7 320 000**	**732 000,00**	**100,0**

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

25 SHARE PREMIUM ACCOUNT

Share premium account	31.12.2017	31.12.2016
Share premium account	38 024,00	38 024,0
Total	**38 024,00**	**38 024,0**

26 RETAINED EARNINGS

Retained earnings	31.12.2017	31.12.2016
Statutory provision	249,00	249,00
Earnings retained by owners' decision over the required value	28 576,00	24 502,00
Total	**28 825,00**	**24 751,00**

27 PROVISIONS FOR LIABILITIES

Provisions for liabilities

	31.12.2017	31.12.2016
Provision for warranty repairs	96,00	61,00
Provision for retirement benefits and unused leaves	616,00	604,00
Total	**712,00**	**665,00**
including:		
Long-term	337,00	429,00
Provision for warranty repairs	0,00	
Provision for retirement benefits and unused leaves	337,00	429,00
Short-term	375,00	235,00
Provision for warranty repairs	61,00	61,00
Provision for retirement benefits and unused leaves	279,00	175,00
Provision for retirement benefits and other costs	35,00	

Change in provisions for liabilities

	31.12.2017	31.12.2016
Opening balance	**664,00**	**664,0**
Recognition of a provision	**140,00**	
Provision for warranty repairs	0,00	
Provision for retirement benefits and leaves	140,00	
Use of provisions		
Provision for warranty repairs		
Provision for retirement benefits and leaves		
Release of provisions	**93,00**	
Provision for warranty repairs	0,00	
Provision for retirement benefits and leaves	93,00	
Provision for balance sheet audit	0,00	
Closing balance	**711,00**	**664,0**

The Company pays retired employees the amount of retirement severance pay in the amount specified by the Labor Code. Accordingly, the Company, on the basis of a valuation made by a professional actuarial company, recognizes a provision for the current value of the retirement severance pay. The main assumptions adopted by the actuary to calculate the amount of the liability are as follows:

	31.12.2017	31.12.2016
discount rate (%)	3,25%	3,50%
Expected remuneration growth rate (%)	3,50%	3,50%

28 LONG-TERM LIABILITIES

Long-term liabilities as at 31.12.2017 amount to PLN 20 697 thousand and include, apart from provisions for liabilities and deferred tax, lease liabilities in the amount of PLN 527 thousand and trade liabilities in the amount of PLN 15 857 thousand. At the end of the comparable period, in long-term liabilities amounting to PLN

6 949 thousand, apart from provisions for liabilities and deferred tax, the Company had also recognized long-term lease liabilities in the amount of PLN 2 444 thousand.

29 SHORT-TERM LIABILITIES

Short-term trade liabilities and other liabilities

	31.12.2017	31.12.2016
Trade liabilities to associates subject to consolidation	7,00	1 250,00
Trade liabilities to other entities *	19 275,00	27 586,00
Tax and social security liabilities	9 425,00	5 506,00
Advance payments received	0,00	0,00
Payroll liabilities	2 121,00	396,00
Other	2 534,00	3 032,00
Total	**33 361,00**	**37 770,00**

*) including the amount of short-term lease liabilities – PLN 2 166 thousand (31.12.2016 – PLN 2 264 thousand).

Trade liabilities aging

	up to 60 days	60 - 180 days	over 180 days	**Total**
as at 31.12.2017				
trade liabilities within due date				18 474,0
overdue liabilities	808			808,0
Trade liabilities - total				**19 282,0**
as at 31.12.2016				
trade liabilities within due date				24 895,0
overdue liabilities	3 735	158	48,0	3 941,0
Trade liabilities - total				**28 836,0**

Tax and social security liabilities refer particularly to VAT for December 2017, PIT and social security contributions paid in December 2017. The increase in trade liabilities at the end of the reporting period compared to the end of the comparative period results from increased purchases for the need of contracts performance at the end of the reporting period. Terms of transaction and transactions with associates are presented in Note 34.

30 LIABILITIES AND RECEIVABLES IN FOREIGN CURRENCIES (LONG-TERM AND SHORT-TERM)

Liabilities and receivables in foreign currencies

(long-term and short-term)

	Liabilities		Receivables	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
EUR	33 131,00	26 335,00	1 081,00	2 170,00
USD			9,00	
PLN	16 615,00	14 241,00	58 992,00	46 517,00

Total	49 746,00	40 576,00	60 082,00	48 687,00

31 CONTINGENT LIABILITIES AS AT 31 DECEMBER 2017

Contingent liabilities (PLN thousand)	31.12.2017	31.12.2016
To other entities	**51 893,00**	**47 431,00**
Bill of exchange liabilities, including issued for:	**21 893,00**	**19 431,00**
Bank as a credit collateral	7 500,0	7 500,00
Insurance companies in respect of performance bond*	13 434,0	11 511,00
Insurance companies in respect of guarantee for security payment	380,0	
Bank guarantees	579,0	420,00
Assignment of receivables	**18 000,0**	**18 000,00**
Transfer of ownership of warehoused goods	**12 000,0**	**10 000,00**

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

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

In December 2014, the Consortium received four 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. 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 essential structural irregularities, which indicate that the Implementation Agreement is subject to the sanction of absolute nullity, in particular due to the following two sets 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 also has a fundamental shortcoming associated with the position of the Parties in the framework of contractual relationship, especially in the context of the recognition of supply contract to be the progenitor of Implementation Agreement, which particularly applies to:

a. penalties reserved exclusively to one party, i.e. Energa-Operator;

b. allowing the possibility of cumulative contractual penalties imposed on the Issuer and T-matic (no possibility of charging any contractual penalties to the Contractor);

c. the possibility of cumulative contractual penalties imposed both from the point of view of the withdrawal from the Implementation Agreement, as well as failure to execute the Agreement within the specified time limit (and therefore the protection of two opposing interests of Energa-Operator, i.e. protection against failure to perform and improper performance of the above mentioned Implementation Agreement);

d. reservation of contractual penalties for failure to comply with the quality parameters of the Issuer's and T-matic company's service for reasons independent of the Issuer and T-matic;

e. possibility of unilateral withholding of products by Energa-Operator, without the consent of the Issuer and T-matic in case of withdrawal from the contract.

On 16 November 2015, Arcus S.A. received from Energa-Operator S.A. request for payment of the total amount of PLN 157 023 542 consisting of:

a. the amount of PLN 1 002 942 (one million two thousand nine hundred forty two) for the decrease of remuneration payable to the Issuer and T-matic for the products delivered in the course of performance of the Implementation Agreement for the delivery and launching of the meter infrastructure of 1 February 2013 ('Implementation Agreement') withheld by Energa-Operator;

b. the amount of PLN 156 060 200 (one hundred fifty six million sixty thousand two hundred) accrued by Energa-Operator on the basis of Implementation Agreement.

According to the analysis and evaluations of the Issuer, the Request is part a of the negotiation tactics of Energa-Operator, and the legal basis of the claim is clearly unfounded because of invalidity of the Implementation Agreement raised by the Issuer (current report no 21/2015 of 16 October 2015). This groundlessness also arises from the lack of factual or substantive grounds for the calculation of contractual penalties. Arcus S.A. legal position did not change, and on 10 November 2015 an action against Energa-Operator was brought to the court as to the annulment of Implementation Agreement (current report no 24/2015).

At the hearing on 13 January 2016, the Court agreed to the position of the Consortium and decided to investigate the nullity of contracts in the first place. As a result, at the meetings on 18 March 2016, 6 May 2016, 1 July 2016, 23 September 2016 and 8 February 2017, the Court heard the witnesses of the Parties. In terms of the request of 16 November 2015 for the payment of the amount of PLN 157 023 542 addressed to the company by Energa Operator S.A., the current legal position of the Issuer has not changed. On 10 November 2015, a lawsuit was filed with a Court, against Energa Operator S.A., for the annulment of the Implementation Agreement, as reported by the Company in the current report No 24/2015.

In connection with the intentions of the Management Board to complete the dispute by way of amicable settlement, a petition was filed with a court for the issuance of summons to a conciliation hearing. The hearing on this matter was scheduled for 20 May 2016, during which another date of the hearing was determined. At the hearing on 5 August 2016, the parties filed a request for re-postponement of the hearing in order to agree on the detailed terms of the settlement. The court, having considered the arguments of both parties, agreed to the request and scheduled the next hearing for 20 December 2016.

On 19 October 2016, the Management Board of Arcus S.A. addressed to Energa Operator S.A. a request for payment of the total amount of PLN 174,111,458.96 as compensation for damage sustained by the Issuer and for immediate cessation of unauthorized actions and omissions of Energa Operator concerning Implementation Agreements and the dispute between the Parties, which would increase the damage of the Company and T-Matic Systems S.A. or would result in violation of personal rights of Issuer or T-matic Systems S.A. In this respect, a petition was filed with a court for the issuance of 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. filled a lawsuit with the Court of Appeals in Gdańsk, 9th Commercial Division against Energa-Operator S.A. On 12 May 2017 a performance bond was issued under which Ergo-Hestia undertook to pay irrevocably and unconditionally, in accordance with the terms of the Guarantee, to Energa-Operator S.A. the amount of PLN 9,597,702.30 in the event of final termination to the detriment of the Issuer and T-matic Systems S.A. of the court proceedings initiated by the Issuer and T-matic against Energa with reference to the claims secured by the Decision (current report no 7/2017).

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

The Claimants puts forward the pleas alleging that Energa is liable for damages (both tortious and contractual) to Claimants with regard to the negative consequences of the actions and omissions related to the creation, escalation and failure to terminate the Dispute. In the opinion of the Claimants, unreasonable and unlawful request of Energa (as the ordering party) for the payment of significant amounts as claims in relation to the performance of the Implementation Agreements, including charging contractual penalties and inducing by Energa to the expansion of the Dispute, as well as failure of Energa to pay of amounts due in connection with works performed, resulted in the damage to the Claimants which was related to the occurrence of circumstances which negatively affecting the business activity performed by the Claimants as well as their functioning in the economic transactions, translating into concrete property damage.

On 11 December 2017 ARCUS S.A. was notified on receiving a counterclaim filled with the Court of Appeals in Gdańsk, 9th Commercial Division by Energa-Operator S.A. with its registered office in Gdańsk against the Issuer and T-matic Systems S.A. as defendants on the basis of which Energa pursues claims in the amount of PLN 157,063,142 along with statutory late payment interest (as from 2 November 2015 until the payment day) to be paid by Defendants as compensation for the alleged damage suffered by Energa in connection with conclusion and implementation by Defendants for the benefit of Energa of several performance contracts for the delivery of software and the launch of meter infrastructure concluded in the period from 25 September 2011 to 1 February 2013 (current report no 22/2017).

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

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 above described dispute were created as at balance sheet day. The Management Board of Arcus S.A. emphasizes that due to the important public interest and precedential nature of the project, its intention is to settle the dispute in an amicable way.

32 CREDIT AND LEASE AGREEMENTS

Lease liabilities

	31.12.2017	31.12.2016

Payable within 1 year	2 166,00	2 264,00
Payable within the period of 1 to 5 years	527,00	2 444,00
Payable within the period over 5 years	-	-
Total	**2 693,00**	**4 708,00**

The Company, as part of leasing agreements concluded with leasing companies, has printing, copying and telemetry equipment, which is provided to Company's clients for further lease.

Mentioned agreements meet the criteria of finance lease. As at the balance sheet date, lease liabilities amounted to PLN 2,693 thousand. These agreements are concluded for a period of 24 to 60 months.

As at 31 December 2017, the Company had an overdraft in the amount of PLN 2 million with maturity date falling on 30 September 2018. As at the balance sheet date the amount of PLN 0.38 million was used. According to the annex to the overdraft agreement signed on 16 January 2018, the amount of credit increased by PLN 2 million available for the period until 29 April 2018.

As at the balance sheet date and until the date of publication of this report, there were no grounds for termination by the bank of the terms and conditions of the binding agreement. As at the balance sheet date, the Company was a party to the agreement concluded with Kyocera Document Solutions Europe B.V. and relating to financing the supplies in the amount of EUR 4.3 million with collateral in the form of a bail granted by the majority shareholder.

33 SUBSIDIES

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

The subsidy for software at the amount of 746 thousand PLN received by the Company in previous years is recognized in other operating income with consideration of amortization charges. As at 31 December 2016, the amount to be settled was equal to PLN 149 thousand and was fully settled in the reporting period.

34 TRANSACTIONS WITH ASSOCIATES

Transactions with associates

Associate		Sale	Acquisition	Receivables	Liabilities
	2017				
T-Matic Systems		181	6	546	1
Docusoft		50	147	56	1
Durau		14	31	5	3
ASI		1 534	892	1 031	
Geotik		344	26	173	2
Michał Czeredys				203	
Receivables - bonds - T-Matic Systems				8 793	
Loan granted to T-Matic Systems				515	
Loan granted to Docusoft				1 092	
Loan granted to Durau				1 863	
Loan granted to ASI				114	
	2016				

T-Matic Systems	428	77	334	3
Docusoft	6	757	1	73
Durau	55		18	
ASI	420	1 634	1	1 165
Geotik	9	4	11	4
LMT		3		3
Michał Czeredys			203	
Polmag	6			
Receivables - bonds - T-Matic Systems			15 094	
Loan granted to T-Matic Systems			2 287	
Loan granted to Docusoft			1 047	
Loan granted to Durau			1 470	

35 REMUNERATION OF SENIOR EXECUTIVES

Remuneration of senior executives

	01.01 - 31.12.2017	01.01 - 31.12.2016
Management Board	750,00	652,00
Supervisory Board	288,00	255,00
Directors	3 205,00	3 316,00
Total	**4 243,00**	**4 223,00**

36 EMPLOYMENT

In 2017, the employment level in the Company increased by 4 employees, or by 3%.

	As at 31.12.2017	**As at 31.12.2016**
Employment	148	144

37 OFF-BALANCE SHEET ITEMS

Details of contingent liabilities are disclosed in point 31.

38 EVENTS AFTER BALANCE SHEET DAY

On 16 January 2018 an annex to the overdraft agreement was signed, under which the amount of credit increased by PLN 2 million available for the period until 29 April 2018.

39 RISK MANAGEMENT

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

39.1 Foreign exchange risk

Foreign exchange risk arises from the nature of the business - ARCUS S.A. is an importer of goods and services (from EUR and USD areas), which are resold on the domestic market in PLN. Receivables and liabilities in foreign currencies as at the end of the reporting and comparable periods are presented in Note 29. In 2017, the Company did not issue derivative instruments.

39.2 Interest rate risk

As at 31.12.2017 ARCUS S.A. was a party to a working capital loan agreement of PLN 2 million, based on a variable WIBOR interest rate plus an additional bank margin (see note 32), and a party to a lease agreement - also WIBOR- based. 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.

39.3 Credit risk

Credit risk refers mainly to asset classes such as receivables, loans granted, cash and deposits, short-term financial assets. Customers who wish to establish a partnership and use merchant credit in transactions with the Company are subject to a verification procedure to assess their financial standing. Subsequently, arising trade receivables are subject to constant monitoring of the Commercial Department and the Financial Department.

A large customer base and its diversification reduce the credit risk by becoming less dependent on small group of major customers.

39.4 Risk related to financial assets held

Such risk is related to the market valuation of financial assets held by the Company that are subject to periodic changes due to fluctuations in stock quotes.

At the end of the reporting period, the company did not have any assets traded on active markets.

39.5 Risk related to liquidity

The management of the Company's liquidity covers the following areas: current, constant monitoring of liabilities and trade receivables, cash flow and Company's cash needs forecasting, active cash management. Liquidity risk is the risk of losing the ability to settle the liabilities within time limits. The risk arises from the potential restriction of an access to financial markets or changes in the attitude of banks to grant credits, which may result in inability to obtain new financing or refinancing the debt.

The Company 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.

The reduction of the available overdraft facility after the balance sheet date is associated with a change in the Company's financing model based on an increased financial commitment by the partner - Kyocera Document Solutions Europe B.V. Taking above into consideration, in the opinion of the Management Board, the risk of loss of liquidity should be assessed as moderate. The risks associated with estimates are described in Section 3.4 - Estimates and Judgments.

40 CAPITAL MANAGEMENT

The main objective of the Company's capital management is to maintain a strong credit rating and healthy capital ratios in order to support the Company's operations and increase its value for the shareholders.
The Company manages the capital structure and introduces the relevant changes as a result of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may change the dividend payment to shareholders, return capital to shareholders or issue new shares.

In the year ended 31 December 2017, no changes were introduced to the objectives, principles and processes in force in this area. The Company monitors the balance of capital. Net debt includes interest-bearing loans and borrowings, trade and other liabilities, less cash and cash equivalents.

CAPITAL MANAGEMENT

	31.12.2017	31.12.2016
Interest-bearing loans and borrowings	377,00	2 708,00
Trade and other liabilities	49 746,00	40 576,00
Less cash and cash equivalents	1 223,00	531,00
Net debt	48 900,00	42 753,00
Equity	67 581,00	63 507,00
Net equity and debt	116 481,00	106 260,00

41 CLASSES OF FINANCIAL INSTRUMENTS

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

FINANCIAL ASSETS

	31.12.2017		31.12.2016	
	Carrying value	Fair value	Carrying value	Fair value
FINANCIAL ASSETS				
Loans granted	4 037,00	4 037,00	5 597,00	5 597,00
Held-to-maturity financial assets	8 201,00	8 201,00	15 094,00	15 094,00
Trade receivables and other receivables	60 082,00	60 082,00	48 687,00	48 687,00
Cash and cash equivalents	1 223,00	1 223,00	531,00	531,00
FINANCIAL LIABILITIES				
Credit liabilities	377,00	377,00	2 708,00	2 708,00

Trade liabilities and other liabilities	49 746,00	49 746,00	40 576,00	40 576,00

Impairment tests have confirmed the value of the financial assets disclosed in this financial statement. For the purpose of impairment testing of the shares held, their fair value was determined using the income method.

Financial Statement of ARCUS S.A. for the year 2017 was approved for publication and signed by the Management Board of ARCUS S.A. on 27 April 2018.

Warsaw, 27 April 2018

……………………………………	……………………………………	……………………………………
Michał Czeredys	Rafał Czeredys	Katarzyna Balcerowicz
President of the Management Board	Member of the Management Board	Financial Director
		Chief Accountant