

# LARQ SPÓŁKA AKCYJNA MANAGEMENT BOARD'S BUSINESS REVIEW REPORT

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For the Period Ended on 31 December 2017  
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LARQ Spółka Akcyjna z siedzibą of Warsaw

Warsaw, 26 March 2018



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## 1. MANAGEMENT BOARD'S COMMENTS ON LARQ 2017 RESULTS

### 1.1. Management Board's Comments on Financial Performance

LARQ SA ("LARQ", the "Company") is qualified as an "investment entity" and measures its portfolio investments at fair value through profit or loss. The financial highlights of the Company for 2017 compared to the corresponding period of the preceding year are shown in table below.

| (PLN '000)  | 01.01-31.12.2017   | 01.01-31.12.2016<br>Restated |
|---|--------------------|------------------------------|
| <b>Revenue from sales</b>   | <b>3,975</b>       | <b>5,196</b>                 |
| Gross profit from sales   | 371                | 680                          |
| Selling, general and administrative expenses  | (8,043)            | (5,372)                      |
| <b>Result of sale and revaluation of financial assets<br/>measured at fair value through profit or loss</b> | <b>50,442</b>      | <b>34,135</b>                |
| Other operating income/(expense)  | 1,050              | 2,341                        |
| <b>Operating profit/(loss)</b>  | <b>43,820</b>      | <b>31,784</b>                |
| Gross profit/(loss)   | 43,201             | 31,813                       |
| <b>Net profit/(loss) for the period</b>   | <b>33,186</b>      | <b>32,150</b>                |
| <b>Financial assets measured at fair value</b>  | <b>140,407,607</b> | <b>87,655,014</b>            |

*Result of sale and revaluation of financial assets measured at fair value through profit or loss* is the key factor affecting the financial results generated by the Company. In 2017, considering:

- good financial results generated by the portfolio companies and
- PreIPO valuation of Nextbike and Brand24 at, respectively, PLN 126 million and PLN 63 million,

the value of the portfolio of investments that the Company measures through profit or loss went up by over PLN 50 million up to PLN 140 million. The increased valuation of the portfolio of financial assets held by the Company was translated into the net profit of PLN 33.2 million generated by LARQ in 2017 compared to PLN 32.2 million for 2016 (restated figure).

Selling, general and administrative expenses went up by PLN 3.6 million in 2017 compared to 2016 because of the valuation of the incentive scheme for board members and key managers of LARQ. The valuation of the scheme for 2017 was PLN 3.5 million compared to PLN 0.5 million in 2016. After elimination of the effect of that incentive scheme valuation, selling expenses and general, administrative expenses corresponded to the last year's level.

At present, the core objects of LARQ include the management of its portfolio of financial assets which comprise certain industry-specific subsidiaries:

- Public transportation (city bike sharing systems)
- Advertising (non-standard outdoor advertising media and full-service agencies)
- New technologies (online content monitoring and sales and marketing automation)

as well as seeking new investment opportunities in the above industries.

The Management Board believes that the Company meets the definition to qualify as an "investment entity" as defined in paragraph 27 of IFRS 10. The above definition is fulfilled based on the following:

- The Company maintains many investments in order to diversify its risks and to maximize its returns;
- The Company has relationships with many investors who are unrelated to the Company and who pool their funds in order to gain access to investment opportunities that would be unavailable to them while-alone;

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- The Company does not intend to maintain its investment portfolio in perpetuity; i.e., it has the “exit strategy” from investments.

Following the adoption of the accounting principles in accordance with IAS 10, the Company as an “investment entity” does not prepare any consolidated financial statements and all its investments in subsidiaries are measured at fair value through profit or loss in its separate financial statements.

During 2017, the Company has also continued the fulfilment of contracts relating to the activities of a full-service advertising agency since the Company used to be a party to such contracts and the contracts continue to bind the Company (these operations are being run off by LARQ and transferred to a subsidiary).

The following portfolio companies are measured by the Company at fair value through profit or loss:

- Larq Fund Management sp. z o.o. (it is wholly owned by LARQ)
- Adinnovation sp. z o.o. (it is wholly owned by LARQ)
- CAM Media Creative Works sp. z o.o. (it is wholly owned by LARQ)
- Intelisoft sp. z o.o. (LARQ holds 53% stake)
- Media Power sp. z o.o. (it is wholly owned by LARQ)
- AWL VIII sp. z o.o. (it is wholly owned by LARQ)
- Nextbike Polska SA (LARQ holds 1% stake).

The Company's subsidiary Larq Fund Management sp. z o.o. holds all certificates in the investment fund called LARQ Growth Fund I FIZ; the assets of that fund comprise, among others, shareholdings in the following companies:

- Nextbike Polska SA (68% stake)
- Brand 24 SA (40% stake)
- Synergic sp. z o.o. (100% stake).

### 1.2. Present and Forecast Financial Standing of LARQ

The strategic objective of LARQ is to generate value for its shareholders by means of increasing the value of financial assets held by the Company in its investment portfolio. The present and future results of the Company depend on the increase in value of its assets holdings, and profits, if any, from their disposal. The Company's results in the subsequent periods will be mostly affected by the operating profit or loss of the portfolio companies and the developments on the capital market as they will directly affect the value of LARQ's assets and the ability to turn them into cash. At the same time, LARQ will analyse its commitment to new investment projects. Likewise in 2017, the Company will also continue the fulfilment of contracts relating to the activities of a full-service advertising agency since the Company used to be a party to such contracts and the contracts continue to bind the Company.

### 1.3. Management Board's View on Meeting Performance Forecasts Published Earlier

On 28 April 2017, LARQ published its forecast (the “Forecast”) concerning the results of LARQ portfolio companies in 2017. Based on the financial statements of portfolio companies, their 2017 financial performance was as follows:

- Nextbike Polska S.A. – the largest supplier and operator of city bike sharing systems in Poland:
  - Number of bikes in operation is PLN 12,200 (compared to the Forecast of 13,000); it grew by 57% from 7,800 at the end of 2016;
  - Revenue from sales of PLN 43.5 million (compared to the Forecast of PLN 40.1 million); it grew by 37% from PLN 31.8 million in 2016;
  - EBITDA of PLN 15.2 million (compared to the Forecast of PLN 15.5 million); it grew by 51% from PLN 10.1 million in 2016.
- Brand 24 SA – the owner of a proprietary tool to monitor online content, sold globally under the SaaS model (Software as a Service):
  - Number of active clients is 2,196 (compared to the Forecast of 2,069); it grew by 55% from 1,414 users at the end of 2016;
  - Revenue from sales of PLN 7.6 million (compared to the Forecast of PLN 7.4 million); it grew by 50% from PLN 5.0 million in 2016;
  - EBITDA loss of PLN 0.3 million (compared to EBITDA loss Forecast of PLN 0.3 million); the corresponding loss was PLN 0.2 million in 2016.

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- Synergic sp. z o.o. – the leading operator and owner of a non-standard outdoor advertising media in Poland:
  - Its base of advertising media available for sale is 40,400 m2 (compared to the Forecast of 33,700 m2); it grew by 83% from 22,100 m2 in 2016;
  - Revenue from sales of PLN 36,7 million (compared to the Forecast of PLN 32.4 million); it grew by 35% from PLN 27.2 million in 2016;
  - EBITDA profit (net of intragroup transactions) of PLN 6.5 million (compared to the Forecast of PLN 6.3 million); it grew by 25% from PLN 5.2 million in 2016;
- LARQ and other portfolio companies:
  - EBITDA loss of PLN 8.7 million (compared to EBITDA loss Forecast of PLN 7.1 million); the corresponding loss was PLN 6.2 million in 2016. Net of realised and expected costs of the incentive scheme, EBITDA loss was PLN 5.2 million (compared to the Forecast loss of PLN 5.7 million); the corresponding loss was PLN 5.7 million in 2016.

The key financial results of portfolio companies for 2017 with comparison to 2016 are presented in table below:

| million                        | 01.01-31.12.2017<br>proforma | 01.01-31.12.2016<br>proforma |
|--------------------------------|------------------------------|------------------------------|
| <b>Revenue from sales</b>      |                              |                              |
| Nextbike                       | 43.5                         | 31.8                         |
| Synergic*                      | 36.7                         | 27.2                         |
| Brand 24                       | 7.6                          | 5.0                          |
| Other*                         | 1.3                          | 3.8                          |
| <b>EBITDA</b>                  |                              |                              |
| Nextbike                       | 15.2                         | 10.1                         |
| Synergic                       | 6.5                          | 5.2                          |
| Brand 24                       | (0.3)                        | (0.2)                        |
| Other*                         | (8.7)                        | (6.2)                        |
| <b>Operating profit (loss)</b> |                              |                              |
| Nextbike                       | 7.2                          | 5.6                          |
| Synergic                       | 5.8                          | 4.3                          |
| Brand 24                       | (0.6)                        | (0.3)                        |
| Other*                         | (9.1)                        | (6.6)                        |
| <b>Net profit/(loss)</b>       |                              |                              |
| Nextbike                       | 4.4                          | 3.9                          |
| Synergic                       | 5.1                          | 3.9                          |
| Brand 24                       | (0.7)                        | (0.4)                        |
| Other*                         | (9.2)                        | (5.4)                        |
| <b>Net debt</b>                |                              |                              |
| Nextbike                       | 24.5                         | 18.4                         |
| Synergic                       | 0.5                          | (0.3)                        |
| Brand 24                       | (2.5)                        | (0.1)                        |
| Other*                         | (1.1)                        | 0.4                          |

\* Net of intragroup transactions.

#### 1.4. Material Developments in 2017

##### Larq

On 18 May 2017, LARQ signed the agreement for subscription of 370,000 shares in the Company by Nationale Nederlanden PTE SA in the private placement of ordinary bearer shares of series H in the Company. The issue was worth PLN 6,290,000. On 21 June 2017, the Company signed the agreement for acquisition of 17,050 shares in Nextbike Polska SA from Nextbike GmbH with a total value of PLN 2,005,932.50, equal to 1% of the share capital of Nextbike Polska SA. On 18 October 2017, upon fulfilment of the conditions precedent as stipulated in the preliminary agreement, the Company signed the contract for sale of two units located in the building in 16 Tamka Street, with two natural persons. The sale price of the property was PLN 2,462,000. In November 2017, LARQ Growth Fund I FIZ made the pre-IPO sale of 17,700 ( ) shares in Brand24 for PLN 560,000, net of the costs of incentive scheme.

##### Key Portfolio Companies

The material developments affecting portfolio companies during 2017 are narrated in Section 3 of this Report.

#### 1.5. Material Post Balance Sheet Events

In the period from 31 December 2017 until the publication of this Report, the Company experienced no material events. Material events affecting portfolio companies after the date of this Report are described in Section 3 hereof.

#### 1.6. Expected Development of LARQ

Larq focuses on efforts to increase the value of its investment portfolio. The growth in value of the Company's assets is directly affected by the operating results of its portfolio companies as well as their development prospects and the developments on the capital market. As regards the business of key companies included in LARQ's investment portfolio, the following is expected:

- **Nextbike** – to win more tenders for supply and operation of city bike sharing systems in other Polish towns and cities, and to continue services for the towns and cities already held in the Company's portfolio; to increase its revenue derived from advertisers and private partners; to improve the efficiency of its operational processes and to grow the effects of scale;
- **Synergic** – selective acquisition of new non-standard advertising media (including new product lines) situated in locations with high quality marketing communication which can guarantee above-the-average return on sales;
- **Brand 24** – to maintain its leadership in its product category in Poland and, at the same time, to continue the growth of its global customer base; to improve the effectiveness of its process of customer acquisition and retention; to continue efforts to perfect its product.

## 2. ADDITIONAL INFORMATION

### 2.1. Background Information about LARQ S.A.

LARQ S.A. with its registered office in Warsaw, ul. Tamka 16 lok. U-4 has been listed on the Warsaw Stock Exchange since 8 May 2008.

The Company has been trading as LARQ since 15 October 2015 when the name change from CAM Media S.A. to LARQ S.A. was registered with the National Court Register. On the other hand, CAM Media S.A. was established through transformation of a private limited liability company styled CAM Media sp. z o.o. into a public limited company. It took place on 25 June 2007 by resolution of the Extraordinary Meeting of Shareholders. The transformation was registered on 1 October 2007 with the Register of Entrepreneurs of the National Court Register. The Articles of Association of CAM Media Sp. z o.o. of Warsaw were signed on 5 February 2004. On 1 February 2007, the National Court Register registered the merger between CAM Media sp. z o.o. and Goldfinger sp. z o.o. of Warsaw by means of transferring all assets of the acquiree company to CAM Media sp. z o.o. and, at the same time, increasing the share capital of the acquirer.

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The core business of LARQ is the management of its portfolio of financial investments which comprises certain industry-specific subsidiaries:

- Public transportation (city bike sharing systems)
- Advertising (non-standard outdoor advertising media and full-service agencies)
- New technologies (online content monitoring and sales and marketing automation)

as well as seeking new investment opportunities in the above industries.

In 2017, the Company has additionally continued the activity of a full-service advertising agency which is to be discontinued (this business is being transferred to a subsidiary).

At 31 December 2017, the Company was managed by the Management Board composed of three members:

Krzysztof Przybyłowski, Ph.D. – Chairman of the Management Board

Mikołaj Chruszczewski – Member of the Management Board

Małgorzata Dzięcioł – Member of the Management Board.

No changes in the Management Board of the Company were made during 2017 or up to the date of approval of this Report.

At 31 December 2017, the operations of the Company were supervised by the Supervisory Board consisting of:

Joanna Braulińska-Wójcik – Chairperson of the Supervisory Board

Bartosz Foroniewicz – Member of the Supervisory Board

Sergiusz Frąckowiak – Member of the Supervisory Board

Adam Kalkusiński – Member of the Supervisory Board

Piotr Krawczyński – Member of the Supervisory Board

No changes in the Supervisory Board of the Company were made during 2017 or up to the date of approval of this Report.

### 2.2 Information about Products, Goods and Services on Offer

Following the successive transfer of its historic operations to portfolio companies, LARQ has gradually ceased to render advertising agency services. At present, the management of the financial investments portfolio is the core business of LARQ.

### 2.3. Breakdown of Revenue by Operating Segments

Considering the successive transfer of the discontinued operations to portfolio companies and its exclusive focus on activities relating to investments in portfolio companies, the Company does not present separate operational segments. The financial results and achievements of LARQ's major portfolio companies during 2017 are discussed in Section 3 hereof.

### 2.4. Sales Markets

Considering the gradual transfer of operating activities, any analysis of sales markets does not apply to the Company.

### 2.5. Material Contracts

In 2017 and during the period leading up to the publication of this report, LARQ was a party to the following material contracts:

- On 18 May 2017, LARQ signed the agreement for subscription of 370,000 shares in the Company by NationaleNederlanden PTE SA in the private placement of ordinary bearer shares of series H in the Company. The issue was worth PLN 6,290,000.
- On 21 June 2017, the Company signed the agreement for acquisition of 17,050 shares in Nextbike Polska SA from Nextbike GmbH of a total value of PLN 2,005,932.50, equal to 1% of the share capital of Nextbike Polska SA.;

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- On 18 October 2017, upon fulfilment of the conditions precedent as stipulated in the preliminary agreement, the Company signed the contract for sale of two units located in the building in 16 Tamka Street, with two natural persons. The sale price of the property was PLN 2,462,000.

### 2.6. Related Party Transactions

In 2017, the Company did not conclude any transactions with any related parties otherwise than on the arm's length basis. Related party transactions are discussed in detail in the financial statements of LARQ.

### 2.7. Issues, Redemption and Repayment of Debt and Equity Securities, and the Application of Issue Proceeds

On 18 May 2017, the private placement of 370,000 ordinary bearer shares of series H took place. The shares were issued by LARQ based on the resolution of the Company's Management Board dated 18 May 2017 regarding the increase of the Company's share capital up to the authorised capital, by means of issuance of new shares in a private placement, dis-application of the pre-emptive right of existing shareholders, and amendments to the Company's Articles of Association. The issue price per share was PLN 17.00 and the total value of share issue was PLN 6,290,000. As a part of the placement, the agreement for subscription of 370,000 shares (i.e., all shares subject to the placement) was signed on 18 May 2017 with NationaleNederlanden PTE SA. The increase of the Company's share capital and the associated amendments to the Company's Articles of Association were registered on 6 June 2017.

Upon meeting the conditions set forth for the second year of implementation of the 2015 incentive scheme, Mr. Mikołaj Chruszczewski subscribed for 50,000 shares in the Company in 2017. Upon meeting the conditions set forth for the first year of implementation of the 2016 incentive scheme, Ms Małgorzata Dzieciół and Mr. Jakub Kurzynoga subscribed for, respectively, 3,333 and 10,000 shares in the Company in 2017.

### 2.8. Shareholders Holding at Least 5% of Total Votes at the General Meeting of LARQ S.A. as at the Submission Date of this Report

| Shareholder                     | Number of Shares | % of Share Capital | % of Votes |
|---------------------------------|------------------|--------------------|------------|
| HARBINGER CAPITAL Ltd.          | 3,000,000        | 38.62%             | 55.72%     |
| QUERCUS TFI SA*                 | 720,478          | 9.28%              | 6.69%      |
| NATIONALE NEDERLANDEN OFE i DFE | 602,156          | 7.75%              | 5.59%      |

\* Of record for the GM held by LARQ SA on 30 June 2017.

### 2.9. Statement of Movements in Holdings of Shares in the Company or Rights to Shares (Options) by Members of the Management and Supervisory Boards

Based on the information available to the Company as at the date of submission of this Report, the following Members of the Management and Supervisory Boards hold shares in LARQ:

| Shareholder   | Number of Shares | % of Share Capital | % of Votes |
|---|------------------|--------------------|------------|
| Krzysztof Przybyłowski – Chairman of Management Board | 214,000          | 2.78%              | 2.00%      |
| Mikołaj Chruszczewski – Board Member                  | 59,039           | 0.77%              | 0.55%      |
| Małgorzata Dzieciół – Board Member                    | 3,333            | 0.04%              | 0.03%      |
| Member of Supervisory Board                           | 50,000           | 0.68%              | 0.48%      |
| Member of Supervisory Board                           | 20,000           | 0.27%              | 0.19%      |
| Member of Supervisory Board                           | 6,489            | 0.09%              | 0.06%      |

In the period after submission of the previous interim report, i.e. since 15 November 2017, there was no change in the shareholdings of the Members of both Management and Supervisory Boards.

### 2.10. Limitations on Ownership of Shares in the Company

None.



**2.11. Purchase of Treasury Shares**

No such events took place during the period covered by this Report.

**2.12. Dividend Paid or Declared**

During the period covered by this report, LARQ has neither declared nor paid any dividend.

**2.13. Probability of Execution of Investment Projects**

The execution of the Company's investment projects will depend on its current performance, growth in the value of assets owned by the Company and sale transactions, if any, as well as identification of attractive investment targets.

**2.14. Information about Material Proceedings Before Court, Arbitration Tribunal or Administrative Authority**

At the publication date of this Report, the Company was not a party to any litigation where the cause of action would exceed 10% of LARQ's equity.

**2.15. Information about Movements in Contingent Assets or Liabilities**

Details of contingent liabilities are presented in LARQ's financial statements for the period ended on 31 December 2017.

**2.16. Information about Loans Borrowed and Terminated During 2017**

In the period from 1 January to 30 June 2017, the Company borrowed and repaid the following loans:

- Loan granted by Synergic sp. z o.o. – the loan of PLN 780,000 was borrowed in 2017; total repayments made in 2017 amounted to PLN 1,480,000;
- Loan granted by Nextbike Polska SA – the loan of PLN 550,000 was borrowed and repaid;
- Loan granted by LARQ Fund Management sp. z o.o. – the loan of PLN 140,000 was borrowed in 2017; total repayments made in 2017 amounted to PLN 300,000;
- Investment loan granted by BGŻ BNP Paribas – it was repaid in full in 2017. Total amount repaid was PLN 804,780.

**2.17. Information about Lending During 2017**

In the period from 1 January to 31 December 2017, the Company extended loans to the following subsidiaries:

- AdInnovation sp. z o.o. – the amount of loans granted in 2017: PLN 55,000; the outstanding loan and interest accrued as at 31 December 2017 amount to PLN 1,261,562.68;
- CAM Media Creative Works sp. z o.o. – the amount of loans granted in 2017: PLN 726,000; the outstanding loan and interest accrued as at 31 December 2017 amount to PLN 1,200,000.00;
- Intelisoft sp. z o.o. – the amount of loans granted in 2017: PLN 82,000.00; the outstanding loan and interest accrued as at 31 December 2017 amount to PLN 550,000.00;
- AWL VIII sp. z o.o. – the amount of loans granted in 2017: PLN 45,000; the outstanding loan as at 31 December 2017 amounts to PLN 0.

**2.18. Information about Guarantees and Sureties Given and Received in 2017**

In the period from 1 January to 31 December 2017, the following mortgages were created by LARQ:

- Contractual mortgage created in favour of ING Bank Śląski by way of security for repayment of the loan borrowed by Nextbike Polska SA. The mortgage amount is capped at PLN 12,000,000.00. The mortgage was created on the premises owned by LARQ.

**2.19. Employee Share Plans**

The Company operates two incentive schemes; their regulations were adopted by the Company's Supervisory Board on 29 September 2015 and 31 May 2016, respectively. Under the incentive scheme, its participants are granted the right to acquire no more than, respectively, 375,000 and 300,000 ordinary bearer shares of series F and G in the Company, to be issued by way of conditional increase of share capital. Those rights will be exercised with the use of subscription warrants. The schemes will be operated for three financial years, starting in 2015 and 2016, respectively.

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In accordance with the regulations of the incentive scheme, for the right to acquire subscription warrants and, subsequently, for shares of the Company, to vest, the conditions specified in the regulations must be satisfied, namely:

- Average price of the Company's shares as listed on the Warsaw Stock Exchange (i.e., the arithmetical average of closing prices of ordinary bearer shares in the Company on the Warsaw Stock Exchange from 62 consecutive trading days during one calendar year, rounded up to two decimals) during any 3-month period of a given Scheme Year, reaches a certain level;
- Participant of the incentive scheme must be employed by the Company until the date of approval, by the Company's General Meeting, of the Company's financial statements for a given year during which the incentive scheme was active;
- Participant of the incentive scheme must not engage in any activities in competition to LARQ until the day of subscription of shares for a given year during which the incentive scheme was active.

The regulations have been described in detail in the Company's Current Reports of 30 September 2015 and 1 June 2016.

At 31 December 2017, Mr. Mikołaj Chruszczewski, Member of the Company's Management Board, is the sole participant of the 2015 scheme and Ms Małgorzata Dziecioł, Member of the Company's Management Board, and Mr. Jakub Kurzynoga, Financial Director of LARQ S.A., are members of the 2016 scheme.

In fulfilment of the incentive schemes for the full year of 2017, the Company recognised the cost of the schemes amounting to PLN 3,465,000 in the statement of profit or loss in the period ended on 31 December 2017, compared to PLN 504,764 in 2016.

Upon meeting the conditions set forth for the second year of implementation of the 2015 incentive scheme, Mr. Mikołaj Chruszczewski subscribed for 50,000 shares in the Company in 2017. Upon meeting the conditions set forth for the first year of implementation of the 2016 incentive scheme, Ms Małgorzata Dziecioł and Mr. Jakub Kurzynoga subscribed for, respectively, 3,333 and 10,000 shares in the Company in 2017.

### 2.20. Changes of Managers and Supervisors

At 31 December 2017, the Company was managed by the Management Board composed of three members:

Krzysztof Przybyłowski, Ph.D. – Chairman of the Management Board

Mikołaj Chruszczewski – Member of the Management Board

Małgorzata Dziecioł – Member of the Management Board.

No changes in the Management Board of the Company were made during 2017 or up to the date of approval of this Report.

At 31 December 2017, the operations of the Company were supervised by the Supervisory Board consisting of:

Joanna Braulińska-Wójcik – Chairperson of the Supervisory Board

Bartosz Foroniewicz – Member of the Supervisory Board

Sergiusz Frąckowiak – Member of the Supervisory Board

Adam Kalkusiński – Member of the Supervisory Board

Piotr Krawczyński – Member of the Supervisory Board

No changes in the Supervisory Board of the Company were made during 2017 or up to the date of approval of this Report.

### 2.21. Contracts Made Between the Company and Its Managers

The Company has not signed any contracts with its managers that would contemplate any non-standard clauses.

### 2.22. Description of Material Risk Factors and Threats

At present, the core business of LARQ is to manage the portfolio of financial assets owned by it; it involves the following risks:

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- **Risk of change in valuation of financial assets** – a risk relating to any decline in valuation of financial assets triggered off by capital market downturn or current and forecast operating results of portfolio companies. The Company measures the fair value of its assets through profit or loss on a quarterly basis and if the aforementioned risks materialise, they may adversely affect the current results of the Company.
- **Risk of longer than expected time needed to exit an investment** – a risk of business slump or stock exchange downturn could further hinder the ability to exit an investment in a given portfolio company, or significantly reduce the realisable rate of return. Consequently, it might adversely affect the financial performance of LARQ and the valuation of its investment portfolio.
- **Risk associated with the development of portfolio companies and their financial results** – a risk of failure to attain the expected development of portfolio companies could potentially lead to lower than expected rates of return on investments and, thus, adversely affect financial results generated by LARQ.
- **Risk associated with acquisition of new projects** – competition from other investors who are interested in acquisition of new investment projects could hinder the acquisition of new projects on attractive terms.
- **Risk of changes in the legal and tax systems** – amendments to laws or their interpretations that might produce negative effects or changes in the business environment for LARQ or its portfolio companies.

### 2.23. Contract for Audit of Financial Statements and Auditor's Fees

On 20 February 2018, the Company and PKF Consult sp. z o.o. sp. k. with its registered office in Warsaw, ul. Orzycka 6 lok. 1B, signed the contract for audit of the 2017 financial statements of the Company. The contract provides for the fee of PLN 27,957.50, net of VAT, for the audit of financial statements. PKF Consult sp. z o.o. sp. k. also performed the review of interim financial statements of the Company for the first six months of 2017 (for the fee of PLN 21,100) and the audit of the Company's 2016 financial statements (the fee of PLN 30,000).

### 2.24. Emoluments of the Members of the Management and Supervisory Boards

The amount of emoluments paid to the Members of the Management and Supervisory Boards is given in Note 37 to the financial statements. The cost of the incentive scheme participated by the Board Members and top executives of the Company is presented in Section 2.21 of this Report.

### 2.25. Other Material Information for Assessment of the Issuer

During the period covered by this Report and to the best knowledge of the Management Board:

- There have been no events other than described above which, in the opinion of the Management Board, are material for assessment of its employment situation, assets, financial standing, profit or loss and changes therein, or other events of importance in assessing the likelihood of fulfilment of obligations by the Company;
- There have been no changes other than described above in the key principles of governance of the Company.

### 3. PORTFOLIO COMPANIES

#### LARQ Key Portfolio Companies: NEXTBIKE POLSKA SA



**Scope of Business:** Nextbike Polska S.A. ("Nextbike", the "Company") is the largest supplier and operator of city bike-sharing systems in Poland. At the end of 2017, the Company managed the fleet of 12,200 bicycles in 28 cities and towns. Nextbike enjoys the 80% share of the Polish city bike-sharing market in terms of fleet size. The Company has been listed on NewConnect since 23 August 2017.

**Nextbike Polska S.A. shares held by LARQ at the end of December 2017:** 69% (blocks of shares held by LARQ S.A. and LARQ Growth Fund I FIZ).

**Key financials:** Throughout 2017, the fleet of bicycles managed by the Company grew by 4,000, net, mostly after putting in operation the new expanded system in Warsaw and launching the new systems in another five towns across Poland, as well as the expansion of the systems in Poznań, Łódź and Białystok and several smaller towns. During 2017, Nextbike reported an increase in sales revenue by 37% up to PLN 43.5 million compared to PLN 31.8 million in 2016.

Nextbike's EBITDA for 2017 was PLN 15.2 million compared to PLN 10.1 million in 2016. The EBITDA increase was due to the fleet growth and associated revenue, growing share of revenue from high-margin contracts with private sector customers and the effects of scale. The dynamic rise in revenue and the improving effectiveness permitted to offset the adverse impact of additional costs incurred on putting the systems into operation (including contractual penalties charged to it) and growing bicycle theft.

**Forecast:** LARQ published its forecast of 2017 performance of portfolio companies (the "Forecast") on 28 April 2017 and Nextbike presented its estimated financial results for 2017 on 11 December 2017 (the "Estimate"). Nextbike's 2017 performance compared to expectations are as follows:

- Number of bikes in operation is 12,200 compared to the Forecast of 13,000 and the Estimate of 12,100; it grew by 57% from 7,800 at the end of 2016;
- Revenue from sales of PLN 43.5 million compared to the Forecast of PLN 40.1 million and the Estimate of PLN 43.5 million; it grew by 37% from PLN 31.8 million in 2016;
- EBITDA of PLN 15.2 million compared to the Forecast of PLN 15.5 million and the Estimate of PLN 15.2 million; it grew by 51% from PLN 10.1 million in 2016.

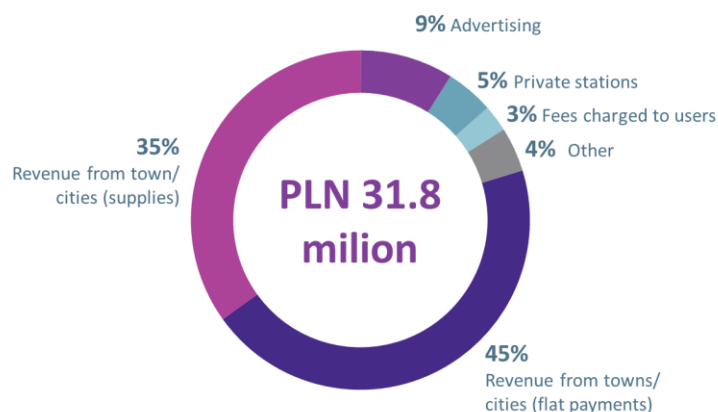
#### Material Developments at Nextbike in 2017:

- In March 2017, Nextbike launched the new city bike sharing system in Warsaw, expanded up to 4,600 bikes, which put it among the largest public bike-sharing systems in Europe;
- In addition, in 2017 the Company launched new systems in five other towns and expended the existing systems, among other in Łódź, Poznań and Białystok;
- Citi Handlowy became the new strategic partner of Nextbike as of 2017;
- In June 2017, Nextbike signed contracts with several dozen investors for the subscription of 51,000 series C shares in the Company for the aggregate value of PLN 6,000,150, thus implying Nextbike valuation at the level of PLN 126 million. On 23 August 2017, Nextbike's shares of series B and C were admitted to trading on NewConnect;
- On 11 August 2017, the Company signed a license agreement with Nextbike GmbH whereby it became exclusively licensed to supply and operate public bike-sharing systems in Norway, Finland and Iceland.
- In September 2017, Nextbike signed the 3-year contract with PKN Orlen for the sale and service of 36 docking stations and 360 bikes to be located at selected filling stations owned by PKN Orlen in six Polish cities;
- On 23 October, Nextbike signed a contract with the City of Turku in Finland for the supply and operation of 300 smartbikes in the period from 1 May 2018 to 30 April 2021; the contract amount is EUR 2.1 million. The contract may be renewed for another three years, with an option of an additional contract for municipalities in the Föli area and an additional contract for the City of Turku;
- The current capitalisation of the company is PLN 142 million.

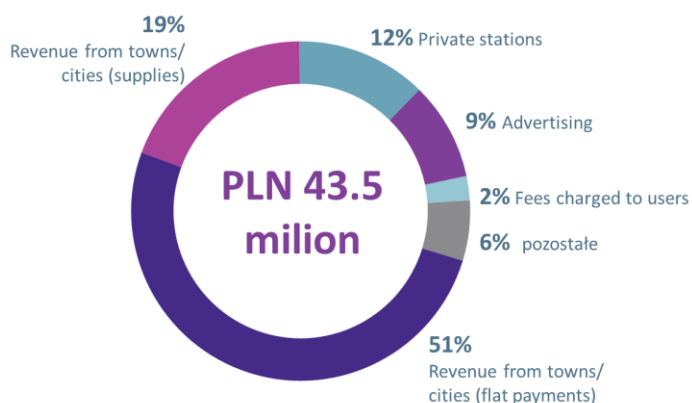
**Management Board's 2017 LARQ S.A. Business Review Report**  
**NEXTBIKE POLSKA SA: Financial Highlights**

| <i>PLN million</i>                           | <b>FY 15</b> | <b>FY 16</b> | <b>FY 17</b> | <b>16/15</b> | <b>17/16</b> |
|--|--------------|--------------|--------------|--------------|--------------|
| Number of bicycles (end of period) (in '000) | 5.4          | 7.8          | 12.2         | 44%          | 57%          |
| Revenue                                      | 17.1         | 31.8         | 43.5         | 86%          | 37%          |
| EBITDA                                       | 4.7          | 10.1         | 15.2         | 116%         | 51%          |
| EBIT   | 0.8          | 5.6          | 7.2          | 631%         | 29%          |
| Net profit (loss)                            | (0.4)        | 3.9          | 4.4          | -            | 11%          |
| Net debt                                     | 14.3         | 18.4         | 24.5         | 29%          | 33%          |

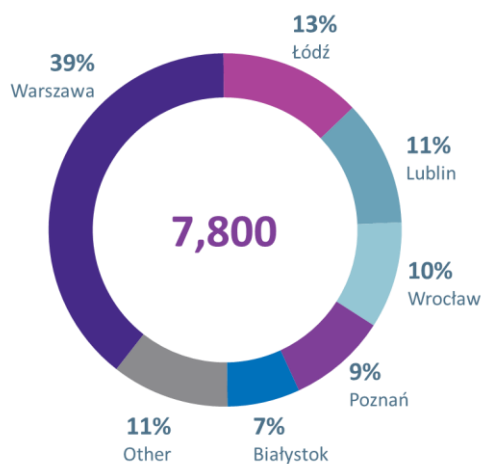
**Breakdown of Revenue for 2016**



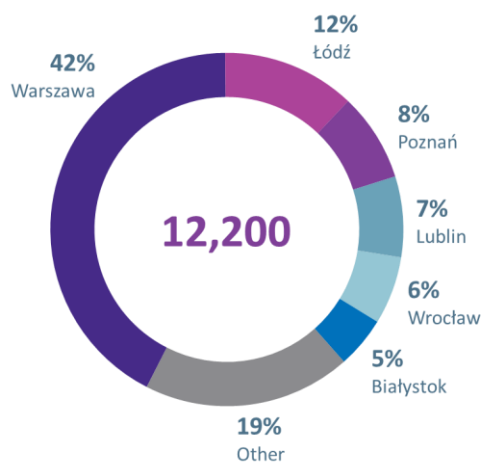
**Breakdown of Revenue for 2017**



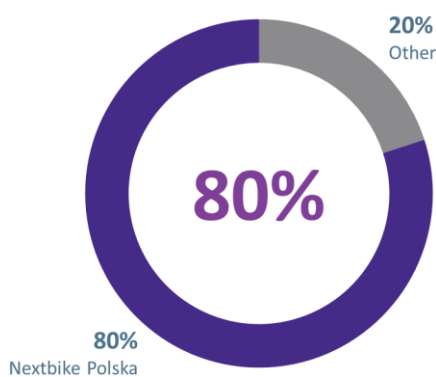
**Fleet Structure at End of December 2016**



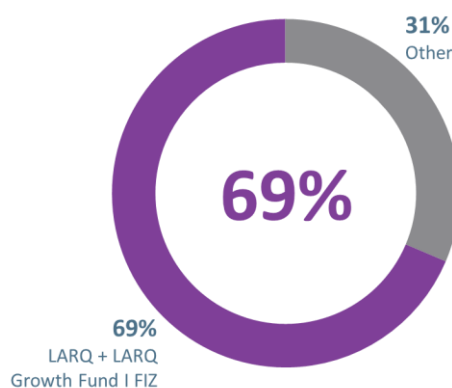
**Fleet Structure at End of December 2017**



**Market Share by Number of Bicycles (December 2017)**



**Nextbike Shareholding Structure (December 2017)**



Source: Nextbike own estimates

**LARQ Key Portfolio Companies: BRAND24 SA**



**Scope of Business:** Brand24 S.A. ("Brand24", the "Company") is the owner of a proprietary tool for inline content monitoring sold as SaaS (Software as a Service). The company enjoys a dominant position on the Polish market in that product category. Since 2015, it has also been successful with the commercialisation of its software on the global market.

**Brand24 S.A. shares held by LARQ at the end of December 2017:** 40% (block of shares held by LARQ Growth Fund I FIZ)).

**Key financials:** At the end of 2017, Brand24 had 2,196 active users of its tool, specifically 1,317 customers for its Polish version and 879 users of the global version which means the growth by 29% and 121%, respectively, compared to the end of 2016.

In 2017, the company reported a growth in revenue per customer as a result of the growing share of international customers in its whole customer portfolio. The growing unit revenue mirroring the growth of customer base led to the increase in sales revenue by 50% up to PLN 7.5 million compared to PLN 5.0 million in 2016. Brand24 incurred EBITDA loss of PLN 0.3 million in 2017, likewise in 2016. During most of 2017, the company's development was funded with funds generated from its present operations and, to a lesser extent, on debt financing.

**Forecast:** On 28 April 2017, LARQ published its forecast of 2017 performance of portfolio companies (the "Forecast"). Brand24's 2017 performance compared to expectations are as follows:

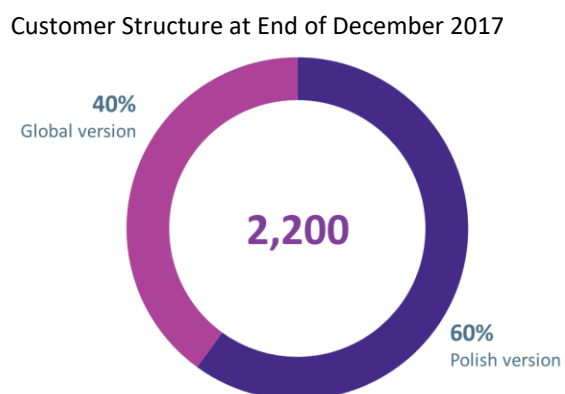
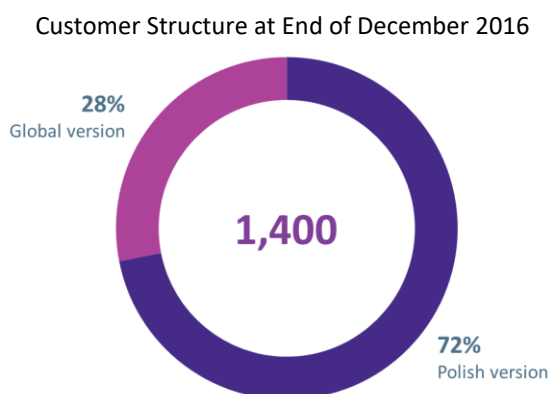
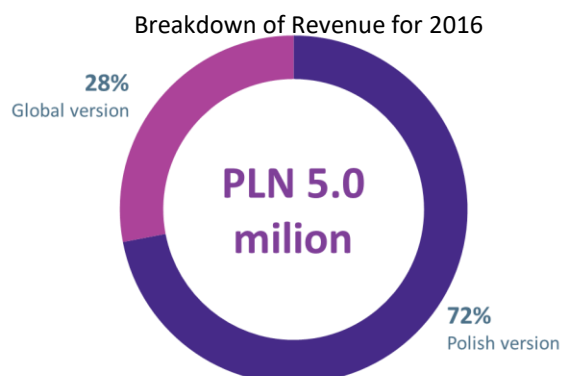
- Number of active clients is 2,169 users compared to the Forecast of 2,069; it grew by 55% from 1,414 users at the end of 2016;
- Revenue from sales of PLN 7.6 million compared to the Forecast of PLN 7.4 million; it grew by 50% from PLN 5.0 million in 2016;
- EBITDA loss of PLN 0.3 million compared to the EBITDA forecast of PLN 0.3 million; 2016 loss was PLN 0.2 million.

**Material Developments at Brand24:**

- Product and sale process improvements: Brand24 launched its new application and started the systematic acquisition of customers via the mobile channel; It designed the algorithm to assess the content sentiment for major foreign languages (English, Spanish, German, Italian, Russian and Turkish) to improve the tool's functionality and the quality of data provided to international customers; Brand24 solution was integrated with TripAdvisor and Yelp services;
- The Company has continued the process of reinforcement of its IT team to accelerate work on new functionalities and to improve the effectiveness of automated sales processes;
- On 18 October 2017, the EGM of Brand24 passed the resolution to adopt a new incentive scheme at Brand24 for its key personnel and associates. The new scheme will be pursued in 2018-2020 and will entail the award of the right to acquire no more than 102,143 shares. Among the prerequisites for award of the right to acquire shares to the scheme beneficiaries, the following operating targets must be met:
  - For 2018: number of clients at the end of period: 2,935; consolidated revenue: PLN 10.8 million; consolidated net loss: PLN 1.1. million;
  - For 2019: number of clients at the end of period: 4,364; consolidated revenue: PLN 16.0 million; consolidated net profit: PLN 0.6 million;
  - For 2020: number of clients at the end of period: 6,213; consolidated revenue: PLN 23.7 million; consolidated net profit: PLN 4.7 million;
- In August 2017, the Extraordinary General Meeting of Brand24 amended the Company's Articles of Association to align it with the best practices followed at the capital market, and authorised the Management Board of Brand24 to increase the share capital up to the authorised capital. On 7 November 2017, Brand24 signed share purchase agreements with investors for the total number of 110,000 shares of series I with the aggregate value of PLN 3,493,600. Following that transaction, the valuation of Brand24 is PLN 63 million. Brand24 shares debuted on the NewConnect market in January 2018. The current capitalisation of the Company exceeds PLN 100 million.

**BRAND24 SA: Financial Highlights**

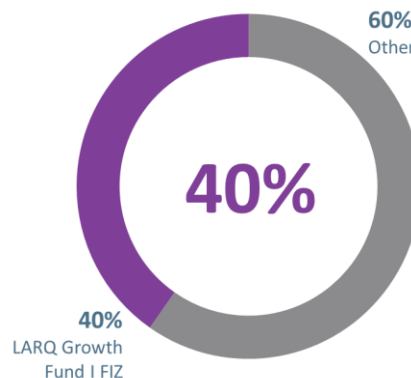
| <i>PLN million</i>                         | <b>FY 15</b> | <b>FY 16</b> | <b>FY 17</b> | <b>16/15</b> | <b>17/16</b> |
|--|--------------|--------------|--------------|--------------|--------------|
| Number of active customers (end of period) | 982          | 1,414        | 2,196        | 44%          | 55%          |
| Revenue                                    | 2.9          | 5.0          | 7.6          | 74%          | 50%          |
| EBITDA                                     | (0.3)        | (0.2)        | (0.3)        | -            | -            |
| EBIT                                       | (0.4)        | (0.3)        | (0.6)        | -            | -            |
| Net profit (loss)                          | (0.3)        | (0.4)        | (0.7)        | -            | -            |
| Net debt                                   | (1.3)        | (0.1)        | (2.5)        | -            | -            |



Growth in Number of Active Customers (December 2017)



Brand24 Shareholding Structure (December 2017)



**LARQ Key Portfolio Companies: SYNERGIC SP. Z O.O.**



**Scope of Business:** Synergic sp. z o.o. ("Synergic", the "Company") is the leading operator and owner of non-standard outdoor advertising media in Poland. The Company displays the advertisements of its clients at all Polish airports and key bus and railway stations. The Company is the exclusive operator of advertising space on city bikes and in underground passages in the major cities in Poland. In addition, since 2017, Synergic has commercialised the digital advertising space in selected ATM networks and on large-format media alongside highways. The Company's market share is 32% which makes it the largest supplier of non-standard outdoor advertising space in Poland.

**Synergic sp. z o.o. shares held by LARQ at the end of December 2017:** 100% (block of shares held by LARQ Growth Fund I FIZ).

**Key financials:** In 2017, Synergic recognised revenue of PLN 36.7 million which means a 35% growth compared to PLN 27.2 million generated in 2016. This growth rate was based on the successful commercialisation of the newly acquired advertising space on city bikes, the improved commercialisation of advertising space at airports, and the addition of new product lines to its offer: large-format media alongside highways and ATM advertising. With its sales results for 2017, Synergic has continued the dynamic growth in revenue experienced by the Company in previous periods.

Thanks to its growing revenue, Synergic EBITDA went up to PLN 6.5 million in 2017 compared to PLN 5.2 million in 2016. In 2017, Synergic EBITDA margin was 18% and was comparable to the 2016 level.

**Forecast:** On 28 April 2017, LARQ published its forecast of 2017 performance of portfolio companies (the "Forecast"). Synergic 2017 performance compared to expectations are as follows:

- Its base of advertising media available for sale is 40,400 m<sup>2</sup> (compared to the Forecast of 37,300 m<sup>2</sup>); it grew by 83% from 22,100 m<sup>2</sup> in 2016;
- Revenue from sales of PLN 36.7 million (compared to the Forecast of PLN 32.4 million); it grew by 35% from PLN 27.2 million in 2016;
- EBITDA profit (net of intragroup transactions) of PLN 6.5 million (compared to the Forecast of PLN 6.3 million); it grew by 25% from PLN 5.2 million in 2016.

**Material Developments at Synergic:**

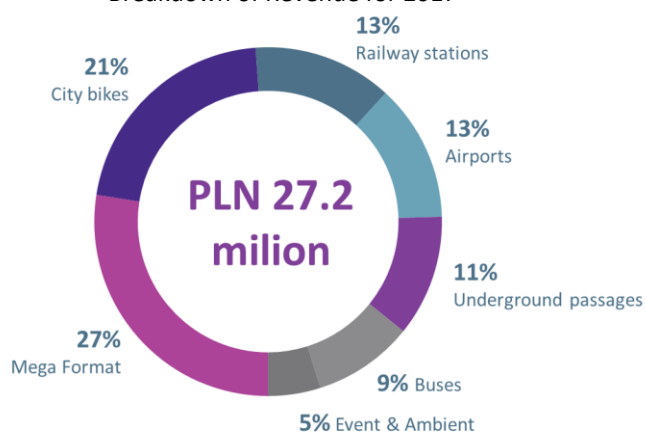
- During 2017, the Company completed over 600 advertising campaigns for the most reputable Polish and international brands with the use of both own and third party media;
- The Company has successfully commercialised the increased space on city bikes based on its newly acquired strategic advertising partner - Citi Handlowy;
- Since the beginning of this year, Synergic has successfully commercialised 72 advertising media alongside A1 and A2 highways; at present, that space is used for quality advertising campaigns for reputable brands;
- Under the agreement with a leading non-bank operator of ATMs, the Company has been commercialising the advertising space and time in the network of over 2,500 ATMs across Poland from the beginning of this year; it delivers advertising campaigns for such customers as the Żywiec Group, Amazon or T-Mobile;
- In 2017, the Company generated substantial revenue thanks to the completion of its multi-channel advertising campaign for Samsung. Samsung promoted its products with the use Synergic's media, mostly located at airports and in underground passages;
- Still in 2017, Synergic started to build a new product line, i.e. digital media on city buses, in major commercial chains and other selected locations. The commercialisation of that product line is scheduled to commence in the first quarter of 2018.



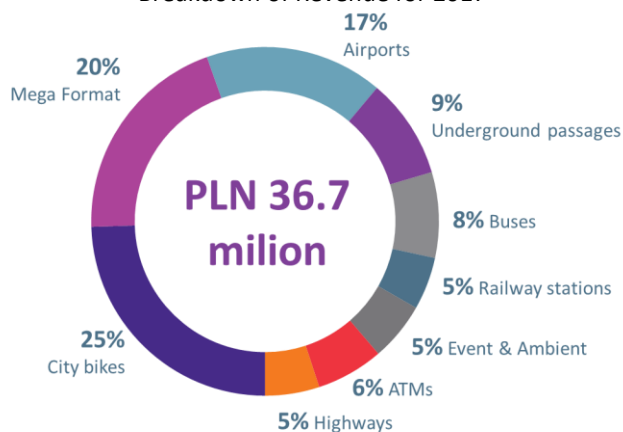
**SYNERGIC SP. Z O.O.: Financial Highlights** (net of intragroup transactions)

| PLN million                               | FY 15  | FY 16  | FY 17  | 16/15 | 17/16 |
|---|--------|--------|--------|-------|-------|
| Advertising space available for sale (m2) | 15,083 | 22,094 | 40,411 | 46%   | 83%   |
| Revenue                                   | 21.4   | 27.2   | 36.7   | 27%   | 35%   |
| EBITDA                                    | 4.3    | 5.2    | 6.5    | 20%   | 25%   |
| EBIT                                      | 3.5    | 4.3    | 5.8    | 23%   | 33%   |
| Net profit (loss)                         | 3.3    | 3.9    | 5.1    | 18%   | 30%   |
| Net debt                                  | (0.3)  | (0.3)  | 0.5    | -     | -     |

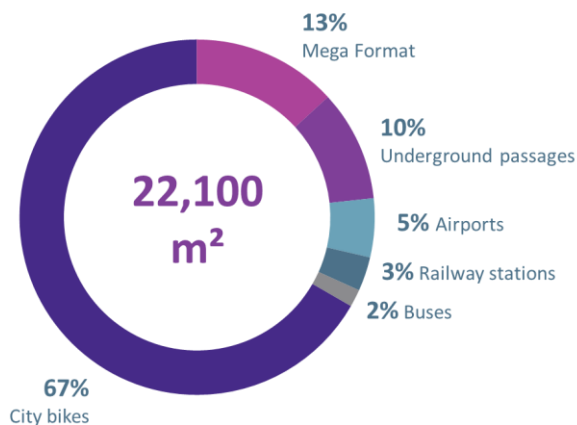
Breakdown of Revenue for 2017



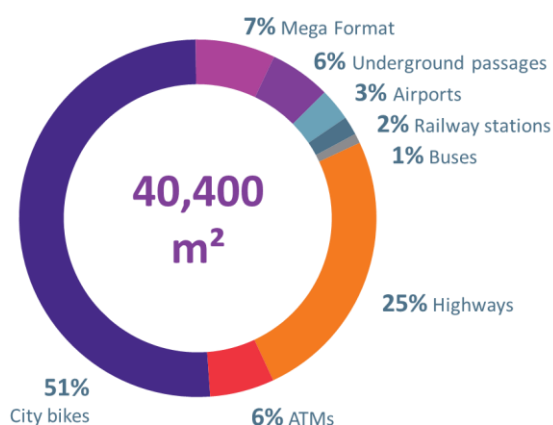
Breakdown of Revenue for 2017



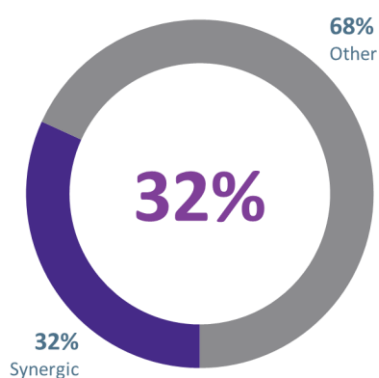
Structure of advertising space available for sale at the end of December 2016



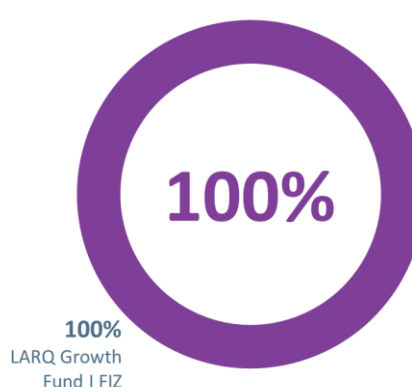
Structure of advertising space available for sale to customers at the end of December 2017



Market Share (December 2017)



Synergic Shareholding Structure (December 2017)



Source: Synergic own estimates

#### 4. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE PRINCIPLES IN 2017 BY LARQ SA

Acting pursuant to § 91 (5) (4) of the Finance Minister's Regulation of 19 February 2009 on current and periodic information to be provided by issuers of securities, and conditions for recognising as equivalent information required under regulations of a non-member state (Journal of Laws 2014 Item 133) and subject to §29 (3) of the Regulations of the Warsaw Stock Exchange, the Management Board of LARQ S.A. of Warsaw hereby states as follows:

**Identification of the set of corporate governance principles applicable to the issuer and the location where the text of that set of principles is available to the public.**

LARQ SA (hereinafter: the Company") has applied the set of *The Best Practices of WSE-Listed Companies 2016* as implemented by Resolution No. 26/1413/2015 of the Exchange Council dated 13 October 2015. The text of the set of principles has been published on the web site at [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl).

**Extend of the Issuer's deviation from compliance with the provisions of the set of corporate governance principles.**

In 2017, LARQ SA followed all principles of corporate governance included in the aforesaid set, excluding the following rules: IV.R.2, VI.R.1, VI.R.2, VI.R.3, zasad I.Z.1.9, I.Z.1.16, III.Z.3, III.Z.4, III.Z.5, IV.Z.2, VI.Z.2, VI.Z.4; the following rule: I.Z.1.15 has been applied to a limited extent.

Information Policy and Communication with Investors

1. Rule I.Z.1.9.

The Company does not comply with the above principle. This rule is not applied to the extent of posting any information about dividend planned on the Company's website.

2. Rule I.Z.1.15.

The Company has not formally adopted any diversity policy, however, it follows certain aspects thereof in its daily business operations, predominantly the criteria of gender, education, age and professional experience.

3. Rule I.Z.1.16.

The Company does not comply with the above rule as regards the publication of Information about a planned broadcast of its General Meetings on its website since the Company does not follow Rule IV.Z.2.

Internal Systems and Functions

1. Rule III.Z.3.

The Company does not have any separate internal audit unit nor a separate post for a person heading that function.

2. Rule III.Z.4.

The Company does not have any separate internal audit unit nor a separate post for a person heading that function. The Management Board of the Company fulfils internal control, risk management, compliance and internal audit tasks as a part of its responsibilities, however, it does not submit any separate assessment of the efficiency of the a/m systems otherwise than in contacts with the Supervisory Board as a part of its daily management of the Company's affairs.

3. Rule III.Z.5.

The Company does not have any formalised internal control, risk management or compliance procedures or units. In view of the foregoing, the Company's Supervisory Board monitors the efficiency of the a/m systems by reliance on regular contacts with the Management Board of the Company which is responsible for fulfilment of the said tasks.

General Meetings and Shareholder Relations

1. Recommendation IV.R.2.

Considering the shareholding structure and no expectations in that respect on part of its shareholders, the Company does not broadcast its General Meetings, also considering the excessively high costs that the Company would need to incur; the Company believes that such costs would be disproportionate to any potential advantages for shareholders.

2. Rule IV.Z.2.

Considering the shareholding structure and no expectations in that respect on part of its shareholders, the Company does not broadcast its General Meetings, also considering the excessively high costs that the Company would need to incur; the Company believes that such costs would be disproportionate to any potential advantages for shareholders.

Remuneration

1. Recommendation VI.R.1.

The Company does not have a formal document setting forth the principles of remuneration policy. The Company presents the rates of emoluments of its officers in the annual reports. As regards the remuneration policy applicable to members of the Management and Supervisory Boards, and how their emoluments are fixed, the Company follows the following rules:

- Emoluments of members of its Supervisory Board are fixed by the General Meeting;
- Emoluments of members of the Management Board are fixed by the Supervisory Board;
- Emoluments of key managers are fixed by the Management Board.

The rate of pay is linked to the scope of duties of each individual and the areas of their responsibility as assigned to each member of those authorities, and to key managers.

2. Recommendation VI.R.2.

The Company has not adopted a remuneration policy. Nevertheless, the principles of remuneration applied by the Company satisfy the requirements set out in Recommendation VI.R.2.

3. Recommendation VI.R.3.

The Company does not have any remuneration committee.

4. Rule VI.Z.2.

The Company has two incentive schemes for the Company's executives, including its Board Members, that allow for exercise of other instruments tied to shares in the Company during a period of less than two years after their grant.

5. Rule VI.Z.4.

This rule is not fully followed by the Company since the Company has not adopted any remuneration policy. Emoluments of members of its Supervisory Board are fixed by the General Meeting, while emoluments of members of the Management Board are fixed by the Supervisory Board. The Management Board fixes the remuneration of key managers. The Company addresses the emoluments of members of its Management and Supervisory Boards in its financial statements.

**Main features of the internal control and risk management systems in place at the issuer's business, with references to the process of preparation of financial statements.**

The Company has in place the internal control and risk management systems to secure the accuracy, correctness and legal compliance of its financial data, and to ensure their high quality. The proper operation of the internal control system is the responsibility of the Management Board's Member in charge of financing activities of the Company.

The financial data are registered in the IT system; the access to that system is restricted by granting relevant authorisations to authorised persons. The access control is maintained continuously during the preparation of financial statements, from the initial input of data until the completion of electronic files. Persons involved in the preparation of financial statements are subject to confidentiality contracts.

The financial data used in financial statements and periodic reports are derived from the monthly and quarterly financial and management reporting prepared by the Company. After the close of books for each reporting month, the Management Board analyses the Company's performance and compares it to the assumptions made in the budget adopted for a given financial year. Any discrepancy vis-à-vis budgetary assumptions are analysed on a daily basis. Necessary adjustments are made, if needed.

The principles of accuracy in keeping the books of account of the Company and for the generation of financial statements in compliance with the relevant standards are based on the following pillars approved by the Management Board:

- Accounting policy and chart of accounts that comply with the Accounting Act;
- Corporate Procedures System to organise the flow of documents and to define the scope of accountability and powers of each chain of that system, as well as the principles of internal control;
- Several internal procedures that regulate the Company specific risk-exposed areas.

Financial statements made by the Company are verified from time to time by an independent auditor in a form of review (of interim statements) and audit (of annual statements).

The process of selecting an entity to serve as an auditor of the Company is carried out in such a way to ensure the auditor's independence in fulfilment of tasks assigned to it. The auditor is selected by the Supervisory Board. Contracts for audit of financial statements of the Company are signed for the term of one year. The Company changes its audit firm at least every five years. The change of audit firm is also understood as the replacement of the person who actually performs the audit.

Among the areas of risk to which the Company is exposed, the major risk is the market risk associated with the business environment of the Company. The Company's exposure to currency risk and interest rate risk is limited. In order to protect itself against the business risk, the Company monitors the business environment of its operations on a daily basis and responds in a flexible manner to any changes or negative trends that emerge.

**Shareholders who hold, directly or indirectly, significant shareholdings and the number of shares held by them, their percentage share of the share capital and the number of votes carried by such shares and their percentage share of total votes at the General Meeting:**

At 31 December 2017, the list of shareholders with significant shareholdings was as follows:

| Shareholder                        | Number of Shares | % of Share Capital | % of Votes |
|------------------------------------|------------------|--------------------|------------|
| HARBINGER CAPITAL Ltd.             | 3,000,000        | 38.62%             | 55.72%     |
| QUERCUS TFI SA*                    | 720,478          | 9.28%              | 6.69%      |
| NATIONALE NEDERLANDEN<br>OFE i DFE | 602,156          | 7.75%              | 5.59%      |

\* Of record for the GM held by LARQ SA on 30 June 2017.

**Holders of any securities that carry special control powers, and description of those powers.**

The Company did not issue any shares that give any special control powers to their holders. The Company issued 500 registered shares of series C1, 500 registered shares of series C2, 500 registered shares of series C3, 500 registered shares of series C4, 500 registered shares of series C5 and 500 registered shares of series C6 that have such preferences that each share carries two votes at the General Meeting. All shares in the C1, C2, C3, C4, C5, C6 series are held by Harbinger Capital Ltd. The remaining shares in the Company are ordinary shares.

**Restrictions on the exercise of voting rights such as limiting the exercise of voting rights by holders of a specified proportion or number of votes, temporal limitations of the exercise of voting rights or clauses whereunder, with the company's assistance, equity rights attaching to securities are separated from the ownership of such securities.**

The Articles of Association of the Company do not provide for any restrictions on the exercise of voting rights by holders of a specified proportion or number of votes, or any temporal limitations of the exercise of voting rights, nor contain any articles whereunder, with the company's assistance, equity rights attaching to securities are separated

from the ownership of such securities. Pursuant to § 18 (5) of the Articles of Association of the Company, no lienholder or beneficiary owner of shares may be granted any voting rights under shares in the Company.

**Restrictions on transfer of ownership of the issuer's securities**

To the best knowledge of the Company's Management Board, no restrictions on transfer of ownership of the issuer's securities exist at the date of this Statement, other than laid down in the law.

**Description of the rules for appointment and removal of managers and their powers, in particular the right to decide on the issue or redemption of shares.**

In accordance with the Articles of Association of the Company, the Management Board consists of one to four members. The Members of the Management Board are appointed and removed by the Supervisory Board. The Supervisory Board may remove the Chairman or Vice-Chairman from the office and leave them on the Management Board, at the same time appointing another person to serve as Chairman or Vice-Chairman of the Management Board. The joint term of office of the Management Board is three years.

The Management Board manages affairs of the Company and represents the Company outside. Two Members of the Management Board acting jointly are authorised to represent the Company. The Chairman of the Management Board manages the proceedings of the Management Board and, without limitation, s/he coordinates, supervises and organises the work of the Members of the Management Board and also convenes and chairs meetings of the Management Board.

The Management Board is authorised to increase the share capital of the Company through issuance of new shares up to the aggregate par value up to PLN 577,837.50 (five hundred seventy seven thousand, eight hundred thirty seven and 50/100 zlotys), in single or several increases of the share capital up to the above limit (authorised capital). The Management Board may issue authorised shares in exchange for contributions in cash or in kind. The Management Board's power to increase the share capital and to issue authorised shares will expire after three years of the registration of amendments to the Articles of Association as amended by Resolution 17/17 of the General Meeting held on 30 June 2017.

The Management Board is authorised to dis-apply the pre-emption right of the existing shareholders.

The Management Board is further authorised to decide whether to buy back shares of the Company in the cases and on the terms and conditions as prescribed in the Commercial Companies Code Act of 15 September 2000 (JoL 2017 Item 1577, as amended).

Decisions of the Management Board on all aspects relating to the increase of share capital up to the authorised capital require approval of the Supervisory Board. The issue price of authorised shares cannot be below the average market price for the last six months immediately preceding the date of adopting a resolution in that matter.

**Amendments to the Articles of Association.**

Any amendment to the Articles of Association requires a resolution to be passed by the General Meeting in accordance with the terms and conditions prescribed in the Commercial Companies Code Act of 15 September 2000 (JoL 2017 Item 1577, as amended).

**Proceedings of the General Meeting and its key powers, and description of shareholders' rights and how they are exercised, without limitation, the principles contemplated in the Rules of Procedure of the General Meeting, if adopted, unless relevant information arises directly from the laws**

The meetings are held on the premises of the registered office of the Company and if the Company's registered office is relocated out of Warsaw, also in Warsaw. General Meeting is convened as provided for in the laws. The General Meeting may be cancelled if it cannot be held due to extraordinary obstacles (Force Majeure) or when it is clearly pointless. It is cancelled in the same way as convened, at the latest three weeks prior to the originally scheduled date. The cancellation of the General Meeting with agenda including specified business put there upon request of authorised entities, or convened upon such request, is only possible with the consent of the requisitionists. The date of the Meeting is rescheduled in the same way as its cancellation, even if the proposed agenda remains unchanged. Resolutions to delete certain issues from the agenda, or resolutions to refrain from consideration of specific matters included in the agenda, shall require a detailed justification and consent of all present shareholders who requested a

specific matter to be included in the agenda. Resolutions on the matters mentioned in the previous sentence shall be passed by the majority of 3/4 (three fourths) votes.

The General Meeting is opened by the Chairperson of the Supervisory Board or a person appointed by him/her. If the Chairperson of the Supervisory Board is not present at the General Meeting or fails to appoint a person responsible for the opening, the General Meeting will be opened by the President of the Management Board or by a person appointed by him/her, and in case of absence of the abovementioned persons – by the Shareholder or by a person representing the Shareholder holding the greatest percentage of votes out of total votes held by those present at the General Meeting.

In addition to other matters as provided for in the laws and in these Articles, the responsibilities of the General Meeting include adoption of resolutions on the following matters:

- Distribution of profit or payment of loss;
- Establishment and release of capital reserves, special funds and determining their purpose;
- Appointment and removal of the members of the Supervisory Board;
- Appointment and removal of liquidators;
- Fixing the remuneration of the members of the Supervisory Board; and
- Adoption of the rules of procedure of the General Meeting.

No purchase or sale of real estate, perpetual usufruct or interest in real estate or perpetual usufruct by the Company shall require a resolution of the General Meeting.

Resolutions of the General Meeting are passed by the absolute majority of votes, unless provided otherwise in the laws or these Articles of Association.

The detailed proceedings of the General Meeting are laid down in the Rules of Procedure of the General Meetings in place at the Company.

**Members and changes made during the last financial year, and description of activities pursued by the managing, supervisory or administrative bodies of the issuer, and their committees.**

From 1 January 2017 to 31 December 2017, the Company was managed by the Management Board composed of three members:

- Krzysztof Przybyłowski, Ph.D. – Chairman of the Management Board
- Mikołaj Chruszczewski – Member of the Management Board
- Małgorzata Dzięcioł – Member of the Management Board.

The Management Board manages affairs of the Company and represents the Company outside. Two Members of the Management Board acting jointly or one Member of the Management Board acting jointly with the procuration holder are authorised to represent the Company. The Chairman of the Management Board manages the proceedings of the Management Board and, without limitation, s/he coordinates, supervises and organises the work of the Members of the Management Board and also convenes and chairs meetings of the Management Board. In case of a tie vote during voting at any meeting of the Management Board, the Chairman of the Management Board has the casting vote. The proceedings of the Management Board are laid down in the Rules of Procedure of the Management Board that have been adopted by the Management Board and approved by the Supervisory Board.

From 1 January 2017 to 31 December 2017, the Supervisory Board consisted of the following members:

- Joanna Braulińska-Wójcik – Chairperson of the Supervisory Board
- Bartosz Foroniewicz – Member of the Supervisory Board
- Sergiusz Frąckowiak – Member of the Supervisory Board
- Adam Kalkusiński – Member of the Supervisory Board
- Piotr Krawczyński – Member of the Supervisory Board

The Supervisory Board has five or seven members, including its Chairperson, who are appointed and removed by the General Meeting for the joint term of office of four years. The Supervisory Board's role is oversight over the Company's operations. The number of members of the Supervisory Board will be determined by the General Meeting, separately for each term of office. The General Meeting may change the number of members of the incumbent

Supervisory Board, however only in connection with relevant changes made in the composition of the Supervisory Board.

The Supervisory Board elects Chairperson, Deputy Chairperson of the Supervisory Board and Secretary of the Supervisory Board, out of their midst, at the first meeting during a new term of office. During its term of office, the Supervisory Board may change persons serving as Chairperson, Deputy Chairperson of the Supervisory Board and Secretary of the Supervisory Board. Every member of the Supervisory Board may be re-elected for another term of office.

Meetings of the Supervisory Board are convened when needed, however at least once every three months. The Management Board or a member of the Supervisory Board may request a meeting of the Supervisory Board to be convened by tabling a proposed agenda. The Chairperson of the Supervisory Board shall convene the meeting within two weeks since the day of receiving the request.

Resolutions of the Supervisory Board are passed by the absolute majority of votes in the presence of at least one half of the members of the Supervisory Board. In case of a tie vote, the Chairperson of the Supervisory Board has a casting vote.

The Supervisory Board proceeds on the basis of the rules of procedure that are adopted by it and specify in detail the proceedings of the Supervisory Board.

The detailed proceedings of the managing and supervisory bodies of the Company are set out in the provisions of the Commercial Companies Code Act of 15 September 2000 (JoL 2017 Item 1577, as amended), the Articles of Association of the Company, the Rules of Procedure of the Supervisory Board of LARQ SA and the Rules of Procedure of the Management Board of LARQ SA.

As of its appointment until 31 December 2017, the Audit Committee consisted of the following members:

- Piotr Krawczyński – Chairperson of the Audit Committee
- Sergiusz Frąckowiak – Member of the Audit Committee
- Joanna Braulińska-Wójcik – Member of the Audit Committee
- Adam Kalkusiński – Member of the Audit Committee.

The Audit Committee proceeded in accordance with the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (JoL 2017 Item 1089) and the Rules of Procedure of the Audit Committee as approved by the Supervisory Board; those Rules specify the duties and powers of the Committee. Based on its powers as defined in the Rules of Procedure, the Audit Committee supported the activities of the Supervisory Board in 2017, namely the fulfilment of its control and supervisory duties as set forth in the Articles.

**Warsaw, 26 March 2018**