

**REPORT OF THE SUPERVISORY BOARD OF LARQ SPÓŁKA AKCYJNA  
FOR THE 2016 FINANCIAL YEAR  
DATED 16 MAY 2017**

**I. INTRODUCTION**

While exercising constant supervision over the Company, in all areas of its activity, the Supervisory Board of LARQ S.A. of Warsaw (the "**Company**"), in compliance with the provisions of the Commercial Companies Code, submits to the Annual General Meeting the Supervisory Board's report for the 2016 financial year.

This report was prepared in line with the requirements set out in the Best Practices of WSE-Listed Companies 2016 as adopted by the Resolution no. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated 13 October 2015 on adoption of the Best Practices of WSE-Listed Companies 2016 (the "**2016 Best Practices**").

**II. SUPERVISORY BOARD'S ASSESSMENT OF THE COMPANY'S FINANCIAL STATEMENTS FOR THE 2016 FINANCIAL YEAR, THE MANAGEMENT BOARD'S BUSINESS REVIEW REPORT ON THE COMPANY FOR THE 2016 FINANCIAL YEAR AND THE PROPOSAL OF THE COMPANY'S MANAGEMENT BOARD REGARDING THE DISTRIBUTION OF PROFIT FOR 2016**

**1) Assessment of the Company's Financial Statements and the Management Board's Business Review Report on the Company for the 2016 Financial Year**

The Supervisory Board of the Company has read the following statements that were prepared by the Management Board of the Company: the Company's financial statements for the 2016 financial year and the Management Board's business review report on the Company for the 2016 financial year.

The Supervisory Board has also read the expert auditor's opinion on and report from audit of the aforesaid financial statements.

Pursuant to Article 382 § 3 of the Commercial Companies Code, the Supervisory Board of the Company has verified the following in terms of their compliance with the books and records, as well as facts:

- 1) the Company's financial statements for the 2016 financial year which comprise:
  - a) Financial highlights;
  - b) Company's statement of financial position made at 31 December 2016, with total assets and total liabilities & equity of PLN 101,453,834.70 /one hundred one million four hundred fifty three thousand eight hundred thirty four 70/100/;
  - c) Company's statement of comprehensive income with net profit of PLN 25,256,343.38 /twenty five million two hundred fifty six thousand three hundred forty three 38/100/ for the 2016 financial year;
  - d) Company's cash flow statement for the 2016 financial year with the increase in net cash and cash equivalents by PLN 139,556.60 /one hundred thirty nine thousand five hundred fifty six 60/100/;
  - e) Company's statement of changes in equity for the 2016 financial year with the increase in the Company's equity by PLN 25,256,343.38 /twenty five million two hundred fifty six thousand three hundred forty three 38/100/; an
  - f) Background information.
- 2) Management Board's business review report on the Company for the 2016 financial year.

Upon reading the aforesaid statements and the expert auditor's opinion and report, pursuant to Article 382 § 3 of the Commercial Companies Code, the Supervisory Board of the Company has assessed that

the aforementioned statements are consistent with the books, records and facts, and hereby moves for their approval by the Annual General Meeting.

## **2) Request to Discharge the Members of the Company's Management Board from Fulfilment of their Duties During the 2016 Financial Year**

Considering the favourable assessment of the Company's financial statements and the Management Board's business review report on the Company for the 2016 financial year, set out in Section II.1 above, the Supervisory Board of the Company hereby recommends that the Annual General Meeting should pass resolutions to discharge the following members of the Company's Management Board from fulfilment of their duties during the 2016 financial year:

- 1) President of Management Board – Mr. Krzysztof Przybyłowski
- 2) Member of Management Board – Ms Małgorzata Dziecioł
- 3) Member of Management Board – Mr. Mikołaj Chruszczewski.

## **3) Assessment of the Proposal of the Company's Management Board to Distribute the Profit for the 2016 Financial Year**

The Supervisory Board of the Company has read the Management Board's proposal of 9 May 2017 regarding the distribution of profit for the 2016 financial year.

The Supervisory Board of the Company has favourably assessed the Management Board's proposal regarding the distribution of the Company's net profit for the 2016 financial year by allocating PLN 18,650,824.75 /eighteen million six hundred fifty thousand eight hundred twenty four 75/100/ for payment of the Company's losses from previous years and by setting aside PLN 6,605,518.59 /six million six hundred five thousand five hundred eighteen 59/100/ to the reserve.

The Supervisory Board hereby recommends that the Annual General Meeting should pass a resolution to distribute the net profit for the 2016 financial year equal to PLN 25,256,343.38 as proposed by the Management Board.

## **III. ACTIVITY REPORT OF THE SUPERVISORY BOARD OF THE COMPANY FOR THE 2016 FINANCIAL YEAR AND SELF-ASSESSMENT OF THE COMPANY'S SUPERVISORY BOARD**

### **1) Term of Office of the Supervisory Board of the Company**

This third joint term of office of the Company's Supervisory Board started on 11 March 2015 and will continue for four years.

### **2) Members of the Supervisory Board of the Company**

As of 1 January 2016 until the date of this report, the Supervisory Board consisted of the following members:

- 1) Ms Joanna Braulińska-Wójcik – Chairperson of Supervisory Board
- 2) Mr. Piotr Krawczyński – Deputy Chairperson of Supervisory Board
- 3) Dr. Bartosz Foronczewicz – Secretary of Supervisory Board
- 4) Sergiusz Frąckowiak – Member of Supervisory Board
- 5) Adam Kalkusiński – Member of Supervisory Board.

### **3) Committees of the Company's Supervisory Board**

Pursuant to § 14 (2) of the Rules of Procedure of the Company's Supervisory Board, the Supervisory Board was authorised to appoint an audit committee in 2016; that committee should have at least one member who meets the condition of independence in the meaning of Article 86 (5) of the Act on Expert Auditors, and should have accounting or financial auditing skills. However, in accordance with the second sentence of § 14 (4) of the Rules of Procedure of the Company's Supervisory Board and

considering that the Supervisory Board of the Company had five members, the tasks of audit committee were discharged by the Supervisory Board of the Company in 2016.

During 2016, the Supervisory Board of the Company did not exercise the power set out in §14 (2) of the Rules of Procedure of the Company's Supervisory Board, namely to appoint other committees.

#### **4) Independence of Members of the Company's Supervisory Board**

Pursuant to Rule II.Z.3 read together with Rule II.Z.4 of the 2016 Best Practices, the Supervisory Board of the Company has vetted all members of the Supervisory Board in terms of meeting the independence criteria set out in Annex II to the Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive directors or supervisory directors of listed companies and on the committees of the (supervisory) board.

Pursuant to Rule II.Z.5 of the 2016 Best Practices, the Chairperson of the Supervisory Board has asked all members to make their statements of compliance with the a/m independence criteria. In response, all members of the Supervisory Board of the Company submitted their statements.

The Supervisory Board of the Company, acting in accordance with Rule II.Z.6 of the 2016 Best Practices, has accepted those submissions and assessed whether or not any relationships or circumstances existed that might affect the fulfilment of the independence criteria by the a/m members of the Supervisory Board. Based on information at its disposal, the Supervisory Board of the Company did not identify any such relationships or circumstances as regards Ms Joanna Braulińska-Wójcik – Chairperson of the Company's Supervisory Board. However, regarding other members of Supervisory Board of the Company, i.e., Mr. Piotr Krawczyński – Deputy Chairperson of the Company's Supervisory Board, Mr. Bartosz Foroniewicz – Secretary of the Company's Supervisory Board, Mr. Sergiusz Frąckowiak and Mr. Adam Kalkusiński, the Supervisory Board of the Company has established that they failed to meet the a/m independence criteria.

#### **5) Activities of the Supervisory Board during 2016**

During the 2016 financial year, the Supervisory Board of the Company met 4 (four) times and adopted resolutions with the use of the means of direct remote communication.

The meetings of the Board were held on the premises of the Company in Warsaw, ul. Tamka 16 lok. U4, on the following dates: 19 January, 26 April, 31 May and 21 December 2016.

During the 2016 financial year, the Supervisory Board of the Company passed 25 (twenty five) resolutions in total. The Supervisory Board of the Company has passed customary resolutions regarding the Annual General Meeting of the Company (also those necessitated by the Company's compliance with its duties under the 2016 Best Practices), on selection of auditor to audit the Company's accounts, regarding corporate matters and with respect to operation of the Company's corporate bodies.

In addition, by Resolution No. 5/05/16 dated 31 May 2016, the Supervisory Board confirmed that Mr. Mikołaj Chruszczewski, Board Member, being the sole participant of the Incentive Scheme as implemented by Resolution 15/15 of the Extraordinary General Meeting dated 31 August 2015, has fulfilled the conditions set for the first year of the scheme, i.e. for 2015. Accordingly, Mr. Mikołaj Chruszczewski subscribed for 50,000 shares of series F in 2016.

Furthermore, the Supervisory Board of the Company has issued its opinions on matters addressed by the Annual General Meeting of the Company for the 2015 financial year, being standard matters addressed by the Annual General Meeting after the end of financial year, as well as those relating to the issuance of subscription warrants convertible into shares in implementation of the Incentive Scheme adopted by the Company for Ms Małgorzata Dziecioł – Board Member and Mr. Jakub Kurzynoga – Financial Director, and also adopted, by Resolution No. 6/05/16 of 31 May 2016, the detailed Regulations of the Incentive Scheme for the aforesaid persons as implemented by Resolution 22/16 of the Annual General Meeting of the Company dated 31 August 2016.

In addition to the foregoing, the Company's Supervisory Board also approved the sale of the Company's real estate consisting of two business premises located in the building in Warsaw, 16 Tamka Street, for the price of PLN 2,400,000, gross, at the latest, and approved the contract for transfer of capital contribution dated 14 July 2016 made between the Company and its subsidiary, LARQ Fund Management Sp. z o.o. (formerly: Kinglet 7 Sp. z o.o.) concerning the contribution of the Company's assets, namely the shareholdings in Nextbike Polska Sp. z o.o. (now: Nextbike Polska S.A.), Synergic Sp. z o.o. and Brand 24 S.A., in exchange for shares in the increased share capital of LARQ Fund Management Sp. z o.o. (formerly: Kinglet 7 Sp. z o.o.).

In addition, during the meetings of the Supervisory Board of the Company, the Management Board briefed the former regarding the current financial performance and provided it with other information about all pending or scheduled key projects and crucial events in the Company and its portfolio companies or that significantly influenced their operations.

The meetings of the Supervisory Board included a fixed item, namely information provided cyclically by the Management Board about the financial and sales results of the Company and its portfolio companies, regarding the activities of the Company and its portfolio companies, on a quarterly basis, and the progress made under the existing contracts and new ventures.

The Supervisory Board declares that it has exercised the constant daily supervision over the activities of the Company, both as a collective body and via its Chairperson and Deputy Chairperson. Such supervisory activities have been carried out in compliance with the legal requirements for joint stock companies. That purpose was also furthered by meetings with the members of the Management Board who, based on the books and records, provided ample explanations and other documents relating to the management of the Company.

## **6) Self-Assessment of the Supervisory Board of the Company**

During the reporting period, the Supervisory Board of the Company has proceeded as a collective body and relied on the expertise and experience of its members. During the 2016 financial year, the Supervisory Board of the Company did not utilise the option of delegating its member to exercise any specified supervisory activities. Its meetings were held on the premises of the Company or with the use of the means of direct remote communication.

All Members the Supervisory Board are highly skilled and have sufficient professional qualifications as necessary to serve as Members of the Supervisory Board. The persons serving on the Supervisory Board of the Company are highly qualified in the area of economy, finance and law, and further they have experience in serving as members of managing or supervisory bodies. Accordingly, the composition of the Supervisory Board provides for the effective supervision over the key areas of the Company's business.

Thanks to the excellent skills and commitment demonstrated by all Members of the Company's Supervisory Board and its efficient organisation, the Supervisory Board has successfully completed its tasks as stated in the Articles of Association, and furthered the interest of the Company.

Ms Joanna Braulińska-Wójcik, Chairperson of the Supervisory Board of the Company, was responsible for the direct liaisons with the Management Board of the Company during the 2016 financial year. The Chairperson of the Supervisory Board of the Company also took part in meetings of the General Meeting of the Company in order to facilitate meaningful answers to questions asked during meetings of the General Meeting.

The Supervisory Board of the Company is satisfied with the way it liaisons with the Management Board of the Company and has not objections as to the provision of information requested by it.

## **IV. ASSESSMENT OF THE SITUATION OF THE COMPANY AND ITS INTERNAL CONTROL, RISK MANAGEMENT AND COMPLIANCE SYSTEMS, AND ITS INTERNAL AUDIT FUNCTION**

## **1) Assessment of the Company's Situation in the 2016 Financial Year**

The Supervisory Board of LARQ S.A. of Warsaw (the "**Company**") has assessed the situation of the Company based on information supplied by the Company's Management Board and its staff pursuant to Article 382 § 4 of the Commercial Companies Code (the "**CCC**").

Following the conclusion of the process of streamlining the structure of product lines within the Company's Group in October 2015, the Company used to operate as a holding company. Then, further changes were made and the Group of LARQ S.A. was transformed from a holding-type company into a fund-like group, in particular by means of contribution by Kinglet 7 Sp. z o.o. (now: LARQ Fund Management Sp. z o.o.), a wholly-owned subsidiary of the Company, its shareholdings in the portfolio companies, namely Nextbike Polska Sp. z o.o. (now: Nextbike Polska S.A.), Synergic Sp. z o.o. and Brand 24 S.A. to the closed-end investment fund LARQ Growth Fund I Fundusz Inwestycyjny Zamknięty, in exchange for investment certificates.

At present, upon adoption of new accounting principles whereunder the Company is recognised as an "investment entity", the core business of the Company is the management of its portfolio of financial assets which comprises certain industry-specific subsidiaries: (i) public transportation (city bike sharing systems); (ii) advertising (non-standard outdoor advertising media and full-service agencies); (iii) new technologies (SaaS and sales and marketing automation), as well as (iv) seeking new investment opportunities in the above industries.

The strategic objective of the Company is to generate value for its shareholders by increasing the value of financial assets held by the Company in its investment portfolio. The present and future performance of the Company depends on the growth in value of its asset holdings and profits from the sale, if any. The Company's performance in the incoming periods will be mostly affected by operating results of its portfolio companies as they will directly affect the value of the Company's assets and the ability to cash them. In parallel, the Company will analyse its involvement in new investment projects. Likewise in 2016, the Company will 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.

## **2) Assessment of the Company's Financial Standing in the 2016 Financial Year**

Pursuant to Article 382 § 3 CCC, the Supervisory Board of the Company has examined the Company's financial statements for the 2016 financial year and the Management Board's business review report on the Company for the 2016 financial year in terms of their compliance with the books and records, as well as facts.

Upon reading the aforesaid statements and reports, and the expert auditor's opinion and report, pursuant to Article 382 § 3 CCC, the Supervisory Board of the Company has assessed that the aforementioned statements and reports are consistent with the books, records and facts, and therefore recommends their approval to the Annual General Meeting of the Company.

In addition, the Supervisory Board of the Company has examined the Management Board's proposal regarding the distribution of profit for the 2016 financial year. The Supervisory Board has favourably assessed the above proposal and has recommended that the Annual General Meeting of the Company should pass a resolution to distribute the Company's net profit for the 2016 financial year equal to PLN 25,256,343.38 as follows: to allocate PLN 18,650,824.75 /eighteen million six hundred fifty thousand eight hundred twenty four 75/100/ for payment of the Company's losses from previous years; and to allocate PLN 6,605,518.59 /six million six hundred five thousand five hundred eighteen 59/100/ to the reserve.

## **3) Assessment of the Internal Control, Risk Management and Compliance Systems, and the Internal Audit Function**

The Company does not have in place any formalised procedures or units in respect of internal control, risk management, compliance or internal audit.

During 2016, the Management Board of the Company was responsible for the internal control and risk management systems. Their effectiveness during the process of making financial statements and periodic reports as prepared and submitted by the Company was the responsibility of the Member of the Company's Management Board in charge of corporate finances. The Management Board of the Company exercises control over its reporting in accordance with the applicable laws by having its financial statements reviewed or audited, as appropriate, by an independent expert auditor. The independent auditor is selected by the Supervisory Board of the Company. The internal control system over financial reporting in place at the Company is mostly based on the application of the established and approved Accounting Policy of the Company.

The main types of risk associated with the financial instruments of the Company include the interest rate risk, liquidity risk, credit risk and investment risk since, at present, the core object of the Company is to manage the existing portfolio of financial assets. The principles for management of each type of risk are verified and agreed by the Management Board.

Based on information provided to the Supervisory Board, no failings have been detected in the internal control or risk management systems in place at the Company. Hence, the Supervisory Board has favourably assessed the internal control and risk management systems.

In addition, because of the scale of its business, the Company does not have any separate internal audit or compliance functions. The legal compliance of the Company's business is monitored at the level of the Company's Management Board. Since there is no separate internal audit function, in accordance with Rule III.Z.6 read together with Rule II.Z.10.1 of the 2016 Best Practices, the Supervisory Board of the Company serves as the audit committee pursuant to § 14 (4) second sentence of the Rules of Procedure of the Company's Supervisory Board; in that capacity, the Supervisory Board assessed the Company's failure to establish a separate internal audit function and concluded that there is no need to proceed with such a separation during 2017.

## **V. ASSESSMENT HOW THE COMPANY FULFILS ITS DISCLOSURE OBLIGATIONS REGARDING THE COMPLIANCE WITH THE CORPORATE GOVERNANCE PRINCIPLES AS SET OUT IN THE REGULATIONS OF THE WARSAW STOCK EXCHANGE AND REGULATIONS ON CURRENT AND PERIODIC INFORMATION TO BE PROVIDED BY ISSUERS OF SECURITIES**

In accordance with Rule II.Z.10.3 of the 2016 Best Practices, the Supervisory Board of the Company assessed the Company's fulfilment of its disclosure obligation in respect of the compliance with the corporate governance principles as set out in the Regulations of the Warsaw Stock Exchange and in regulations on current and periodic information to be provided by issuers of securities throughout 2016.

In 2016, the Company brought its corporate governance in line with the 2016 Best Practices. All deviations were reported by the Company in its reports: EBI 1/2016 and EBI 2/2016.

The statement of compliance with the corporate governance principles in 2016 was included in the Management Board's business review report on the Company for the 2016 financial year, as a relevant report in accordance with § 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.

In the above report, the Management Board of the Company has declared that, in 2016, the Company complied with all principles of corporate governance as set forth in the aforesaid set of the 2016 Best Practices, except for Rules 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 Rules I.Z.1.15., II.Z.7., II.Z.8. are applied to a limited extent. The analysis carried out by the

Supervisory Board indicates that the Company does not follow the Rule V.Z.6., either, but the Management Board failed to mention it in the said report by mistake as follows clearly from the report EBI 2/2016.

Furthermore, based on available information, the Supervisory Board of the Company has not found any failings as regards the accuracy or timely publication of corporate governance disclosures.

#### **VI. DISCLOSURE OF THE ABSENCE OF POLICY RELATING TO ANY SPONSORING, CHARITABLE OR SIMILAR ACTIVITIES**

In accordance with Rule II.Z.10.4 of the 2016 Best Practices and based on the disclosure provided by the Company on 4 May 2017, the Supervisory Board of the Company notes that the Company did not engage in any sponsoring, charitable or similar activities during 2016 and, hence, the Company does not have any such policy.

[SGD]

Joanna Braulińska-Wójcik – Chairperson of Supervisory Board

[SGD] Piotr Krawczyński  
Deputy Chairperson of Supervisory Board

[SGD] Adam Kalkusiński

[SGD] Bartosz Foroniewicz  
Secretary of Supervisory Board

[SGD] Sergiusz Frąckowiak