

**REPORT OF THE SUPERVISORY BOARD OF LARQ SPÓŁKA AKCYJNA  
FOR THE 2017 FINANCIAL YEAR  
DATED 29 MAY 2018**

**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 2017 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 2017 (the "**2016 Best Practices**") and the provisions of Article 382 § 2 of the Commercial Companies Code.

**II. SUPERVISORY BOARD'S ASSESSMENT OF THE COMPANY'S FINANCIAL STATEMENTS FOR THE 2017 FINANCIAL YEAR, THE MANAGEMENT BOARD'S BUSINESS REVIEW REPORT ON THE COMPANY FOR THE 2017 FINANCIAL YEAR AND THE PROPOSAL OF THE COMPANY'S MANAGEMENT BOARD REGARDING THE DISTRIBUTION OF PROFIT FOR 2017**

**1) Assessment of the Company's Financial Statements and the Management Board's Business Review Report on the Company for the 2017 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 2017 financial year and the Management Board's business review report on the Company for the 2017 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 2017 financial year which comprise:
  - a) Financial highlights;
  - b) Company's statement of financial position made at 31 December 2017, with total assets and total liabilities & equity of PLN 152,303,747.09 /one hundred fifty two million three hundred three thousand seven hundred forty seven 09/100/;
  - c) Company's statement of comprehensive income with net profit of PLN 33,186,199.07 /thirty three million one hundred eighty six thousand one hundred ninety nine 07/100/ for the 2017 financial year;
  - d) Company's cash flow statement for the 2017 financial year with the increase in net cash and cash equivalents by PLN 537,852.55 /five hundred thirty seven thousand eight hundred fifty two 55/100/;
  - e) Company's statement of changes in equity for the 2017 financial year with the increase in the Company's equity by PLN 42,696,249.37 /forty two million six hundred ninety six thousand two hundred forty nine 37/100/; and
  - f) Background information.
- 2) Management Board's business review report on the Company for the 2017 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 2017 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 2017 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 2017 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 Approve the Correction of the Basic Error and to Distribute Retained Earnings Resulting from the Correction of the Basic Error Referring to the 2016 Financial Year**

The Supervisory Board has read the proposal of the Company's Management Board dated 22 May 2018 to approve the correction of the basic error and to distribute retained earnings resulting from the correction of the basic error referring to the 2016 financial year.

The Supervisory Board of the Company has favourably assessed the Management Board's proposal to (i) approve the correction of the basic error referring to the 2016 financial year as performed by the Management Board of the Company which was caused by the overstatement of deferred income tax liability which led to the increase in net profit for the 2016 financial year by PLN 6,893,770.14 /six million eight hundred ninety three thousand seven hundred seventy 14/100/ up to PLN 32,150,113.52 /thirty two million one hundred fifty thousand one hundred thirteen 52/100/; and (ii) distribute the a/m amount of profit by allocation of that entire amount to the reserve.

The Supervisory Board hereby recommends that the Annual General Meeting should pass a resolution (i) approving the correction of the basic error referring to the 2016 financial year as performed by the Management Board of the Company which was caused by the overstatement of deferred income tax liability which led to the increase in net profit for the 2016 financial year by PLN 6,893,770.14 /six million eight hundred ninety three thousand seven hundred seventy 14/100/ up to PLN 32,150,113.52 /thirty two million one hundred fifty thousand one hundred thirteen 52/100/; and (ii) distribution of the a/m amount of profit by allocation of that entire amount to the reserve.

## **4) Assessment of the Proposal of the Company's Management Board to Distribute the Profit for the 2017 Financial Year**

The Supervisory Board of the Company has read the Management Board's proposal of 22 May 2018 regarding the distribution of profit for the 2017 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 2017 financial year by setting the amount of PLN 33,186,199.07 /thirty three million one hundred eighty six thousand one hundred ninety nine 07/100/ to the reserve. The Supervisory Board believes that the Company should keep its profits in view of its potential future investment needs.

The Supervisory Board hereby recommends that the Annual General Meeting should pass a resolution to distribute the net profit for the 2017 financial year equal to PLN 33,186,199.07 /thirty three million one hundred eighty six thousand one hundred ninety nine 07/100/ as proposed by the Management Board.

### **III. ACTIVITY REPORT OF THE SUPERVISORY BOARD OF THE COMPANY FOR THE 2017 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 2017 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 Foroniewicz – 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**

On 18 September 2017, the Audit Committee was appointed for the Company by Resolution 2/09/17 of the Company's Supervisory Board.

In the period from its appointment, i.e. 18 September 2017, until 31 December 2017, the Audit Committee had the following members:

- 1) Mr. Piotr Krawczyński – Chairman of the Audit Committee (Deputy Chairperson of Supervisory Board);
- 2) Ms Joanna Braulińska-Wójcik – Member of the Audit Committee (Chairperson of Supervisory Board);
- 3) Mr. Adam Kalkusiński – Member of the Audit Committee (Member of Supervisory Board); and
- 4) Mr. Sergiusz Frąckowiak – Member of the Audit Committee (Member of Supervisory Board).

The foregoing members of the Audit Committee remain incumbent as at the date of this report.

Throughout its service so far, the members of the Audit Committee have met the requirements under the criteria of independence, expertise and skills in accounting or audit of financial statements, as well as knowledge and skills in the Company's field of business as set forth in the Act on Certified Auditors, Audit Firms and Public Supervision of 11 May 2017 (JoL 2017 Item 1089) (the "**Auditors Act**"). During the reporting period, the members of the Audit Committee have also met the criteria imposed under the Best Practices of WSE-Listed Companies.

The Audit Committee Rules of Procedure were adopted by the Supervisory Board of the Company on 18 October 2017.

In accordance with the Audit Committee Rules of Procedure, the Audit Committee is expected to support the Supervisory Board in fulfilment of its control and supervision duties as per the Articles, without limitation:

- 1) Monitoring of the financial reporting process;
- 2) Monitoring the efficiency of internal control systems as well as the risk management and internal audit systems, also with respect to financial reporting;
- 3) Monitoring the execution of financial audit tasks, especially audits carried out by an audit firm;
- 4) Controlling and monitoring the independence of certified auditor and audit firm, especially when non-audit services are rendered for the Company by the audit firm;

- 5) Keeping the Company's Supervisory Board advised of audit results and explaining how the audit contributed to the accuracy of the Company's financial reporting, and what was the role of the Audit Committee during the audit process;
- 6) Performing assessments of the independence of a certified auditor and approval of any non-audit services to be provided by him/her for the Company;
- 7) Drafting a policy on selection of audit firm to perform audits;
- 8) Drafting a policy on provision of permitted non-audit services by the audit firm, its affiliates and by any member of the audit firm's network;
- 9) Defining the procedure for selection of audit firm by the Company;
- 10) Putting forward recommendations to the Supervisory Board regarding the appointment of certified auditors or audit firms in line with the relevant policies developed by the Audit Committee; and
- 11) Submission of recommendations to ensure the accuracy of the Company's financial reporting process.

During 2017, the Supervisory Board of the Company did not exercise the power set out in §11 (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 Rules II.Z.3-II.Z.6 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.

In particular, the Supervisory Board of the Company has examined the existence of any relationships or circumstances that might affect the satisfaction of independence criteria by any members of the Supervisory Board of the Company.

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, Mr. Piotr Krawczyński – Deputy Chairperson of the Company's Supervisory Board or Mr. Sergiusz Frąckowiak. However, regarding other members of Supervisory Board of the Company, i.e. Mr. Bartosz Foroniewicz – Secretary of the Company's Supervisory Board 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 2017**

During the 2017 financial year, the Supervisory Board of the Company met 6 (six) 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: 28 February, 16 May, 18 September, 29 September, 10 October and 7 November.

During the 2017 financial year, the Supervisory Board of the Company passed 42 (forty two) 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), regarding corporate matters and with respect to operation of the Company's corporate bodies.

The Supervisory Board of the Company has issued its opinions on matters addressed by the Annual General Meeting of the Company for the 2016 financial year, being standard matters addressed by the Annual General Meeting after the end of financial year.

In addition, by Resolution 1/07/17 of 10 July 2017, the Supervisory Board confirmed that Mr. Mikołaj Chruszczewski and Ms Małgorzata Dzieciół – Members of the Company's Management Board, and Mr.

Jakub Kurzynoga – Financial Director, who are participants of the Incentive Schemes operated by the Company, have met the general conditions and the personal vesting conditions for 2016. In view of the foregoing:

- Mr. Mikołaj Chruszczewski acquired 50,000 series F shares in the Company in 2017;
- Ms Małgorzata Dzieciół acquired 3,333 series G shares in the Company in 2017; and
- Mr. Jakub Kurzynoga acquired 10,000 series G shares in the Company in 2017.

In addition, the Supervisory Board of the Company appointed the Audit Committee and selected its members by the Resolution 2/09/17 of 18 September 2017.

Furthermore, upon the initiative of the Audit Committee, the Supervisory Board of the Company adopted the following policies and procedures by its Resolution 6/10/17 of 18 October 2017:

- Policy for selection of audit firm for Larq S.A. to perform statutory and voluntary audits of separate annual financial statements;
  - Procedure for selection of audit firm for Larq S.A. to perform audit and non-audit services for Larq S.A.; and
  - Policy for provision of non-audit services by the audit firm authorised to audit separate annual financial statements,
- whereunder specified duties and powers with respect to the foregoing were granted to the Audit Committee.

By its Resolutions 7/10/17, 8/10/17 and 9/10/17 of 18 October 2017, the Supervisory Board also adopted the following: Rules of Procedure of the Company's Management Board, new wording of the Rules of Procedure of the Company's Supervisory Board and the rules of procedure for the Audit Committee.

In addition, by its Resolution 11/09/17 of 29 September 2017, 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 sale price of at least PLN 2,400,000 (two million four hundred thousand).

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 2017 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 2017 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 2017 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**").

LARQ SA is recognised as an "investment entity" and the core business of the Company is the management of its portfolio of financial assets which comprises certain direct and indirect 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 key portfolio assets of the Company, i.e. shares in Nextbike Polska S.A., Brand24 S.A. and Synergic sp. z o.o., are held by the investment fund called LARQ Growth Fund I FIZ; LARQ's subsidiary LARQ Fund Management sp. z o.o. holds all investment certificates in that fund.

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. During 2017, the value of the Company's investment portfolio grew by over PLN 50 million building on the very good financial performance of its portfolio companies and the PreIPO valuation of Nextbike and Brand24 equal to, respectively, PLN 126 million and PLN 60 million. 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 2017, 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 2017 Financial Year**

Pursuant to Article 382 § 3 CCC, the Supervisory Board of the Company has examined the Company's financial statements for the 2017 financial year and the Management Board's business review report on the Company for the 2017 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 2017 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 2017 financial year equal to 33,186,199.07 (thirty three million one hundred eighty six thousand one hundred ninety nine 07/100) for the 2017 financial year by allocating the full amount 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 2017, 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, credit risk, liquidity 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.

### **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 2017.

The statement of compliance with the corporate governance principles in 2017 was included in the Management Board's business review report on the Company for the 2017 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.

Based on the above report, the Management Board of the Company has declared that, in 2017, the Company complied with all principles of corporate governance as set forth in the aforesaid set of the 2016 Best Practices, except for Rules IV.R.2, VI.R.1, VI.R.2, VI.R.3, the Rules of 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 of I.Z.1.15 are applied to a limited extent.

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 22 May 2018, the Supervisory Board of the Company notes that the Company did not engage in any sponsoring, charitable or similar activities during 2017 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

- Sergiusz Frąckowiak