



QuarticOn S.A.

QUARTERLY REPORT

3rd Quarter of 2019

Table of content

1	Management Board's Commentary	2
2	The most important financial data for the third quarter of 2019	4
3	Key events in the Q3 of 2019	6
3.1	Organizational and strategic development	6
3.2	Polish market (share of sales in the quarter: 65%)	7
3.3	Foreign markets (share of sales in the quarter: 35%)	7
3.3.1	The Czech and Slovakian market	8
3.3.2	The British market	8
3.4	Marketing and customer care	8
3.5	Average Revenue Per Customer (ARPC) and churn	10
3.6	R&D and IT infrastructure	11
4	Information on the Company's subsidiaries	12
5	Information on the Company's shareholder structure	13
6	Information on the number of persons employed	14
7	Forecasts of financial results	14
8	Implementation of the development activities presented in Information Memorandum (DI)	15
9	Shortened financial statement	16
9.1	Introduction	16
9.2	Balance sheet	17
9.3	Profit and loss statement	22
9.4	Cash flow statement	24
9.5	Statement of changes in equity	26
9.6	Additional information (3 rd quarter of 2019)	28
9.7	Principles adopted for drawing up of the financial statement	29

1

Management Board's Commentary

Ladies and Gentlemen,

In the third quarter of 2019 we focused our operations mainly on developing SaaS and optimising costs. These are the two strategic areas which we expect to have the greatest impact on our Company in the short term. Importantly, this was another quarter in which we recorded improved EBITDA.

We have already advised our Shareholders of our plans to launch SaaS via e-commerce platforms. Looking at the outcomes of these actions now, we are convinced that this was a good decision. As of today, our QuarticOn app is available through local platforms in the Czech Republic (Shoptet.), Slovakia (Shoptet, CreativeSites) and Poland (Shoper). And for few days also on Shopify.com with over 1 million e-shops. We still have some SaaS-related marketing and publicity work in the pipeline, but we expect the first results to be produced before the end of December 2019.

Cost optimisation is something we started back in Q2. As we have already told you before, as a result of changes in our sales, development, and implementation processes, we were able to consolidate and cluster together our teams to generate cost savings. In addition, we worked on improving the efficiency of our infrastructure and on optimizing our current expenditures. This helped bring our operating costs (excluding amortisation) down by 30% (EUR 46.000) in September, compared to January. But while the full effect of these savings will not be observed until November, a consistent improvement in EBITDA can be already seen today.

The level of sales in Q3 was similar to that found in the previous quarter. In September this year we have completed the implementation process of the new sales model, with updated offer arranged in functional packages that can be implemented in stages or groups. This new selling concept is very popular and brought us to few, big potential clients. What makes us really excited is the fact that as much as 35% of our revenue is generated abroad.

We are also looking forward to the final results of EU grant calls to support us in our R&D work on new AI-based solutions.

General Meeting of Shareholders (on 8th of November) adopted the capital increase for the purposes of current development and the potential M&A transactions. The decision made by our shareholders confirms that we are developing in the right direction.

QuarticOn Board



Paweł Wyborski
Założyciel i Prezes Zarządu



Michał Giergielewicz
Członek Zarządu

2

The most important financial data for the third quarter of 2019

Selected data from the profit and loss account for the third quarter of 2019.

Item	(in thou. EUR)			change:	
	IIIQ 2018	IIQ 2019	IIIQ 2019	III Q 2019 / III Q 2018	III Q2019 / II Q2019
Net revenue from sales	263,2	268,3	249,1	-5%	-7%
Operating expenses excl. depreciation & amort.	-292,5	-397,7	-346,3	18%	-13%
EBITDA (based on result on sales)	-29,4	-129,4	-97,2	-68	32
EBIT (operating result)	-91,3	-288,7	-236,1	-145	53
Net result	-128,9	-282,5	-244,4	-115	38
Net revenue from sales excl. VOD clients	237,8	263,0	247,4	4%	-6%
R&D Investment	-206,6	-100,1	-114,0	-93	14

What had the largest impact on our performance in Q3 2019, was bringing costs down by EUR 51 thousands (-13%) compared to the previous quarter. This was the result of expenditure optimization in Q3, and its full effect will only be reflected in Q4 results. While our sales performance during this period was similar to that recorded in both the previous quarter and Q3 2018, it is important to note that, excluding the VOD sector, our Company improved its sales performance by 7% compared to the previous year.

With our EBITDA higher by EUR 32,000, Q3 followed Q2 as another quarter where our EBITDA improved.

Selected data from the balance sheet and cash flow statement

Selected data from the balance sheet		(in thou. EUR)	
	As of 30.09.2019	As of 30.09.2018	
Fixed assets	1 965,9	1 915,6	
- including intangible and legal assets	1 628,3	551,9	
Current assets	400,3	1 862,9	
- including short-term investments	154,6	1 536,5	
Total Assets	2 366,2	3 778,5	
Equity	1 486,7	2 549,5	
Liabilities and provisions for liabilities	879,5	1 229,0	
- including short term liabilities	808,8	1 101,9	
Total Liabilities	2 366,2	3 778,5	

Selected data from cash flow sheet		(in thou. EUR)	
	Cumulated 2019	Cumulated 2018	
Net profit (loss)	-840,2	-252,1	
Net cash flow from operating activities	-339,9	-522,2	
Net cash flow from financial activities	-50,7	2 001,1	
Cash closing balance	154,6	1 536,5	



3

Key events in Q3 2019

3.1

Organizational and strategic development

Expenditures optimisation processes:

In Q3, our Company continued its expenditure optimisation efforts initiated in Q2. During this period, our primary focus was on improving IT efficiency (development and implementation). With radical process redevelopment, team consolidation, and zeroing in on our leading projects, we were able to optimise our expenditures. The effects of this will be visible in Q4 2019. However, even now operating costs minus amortisation for Q3 2019 are lower by EUR 124,000 than in Q1 2019.

R&D projects supported from EU grants:

Our Company is looking forward to the final results of the calls to which we submitted our project proposals. The value of these is EUR 3.4 Mio.

New shares issue:

The Company's Extraordinary General Meeting (on November 8, 2019) decided to issue a private issue up to PLN 20,000 series F shares, from which the funds will be used to finance of development of the further solutions in the SaaS segment. The General Meeting also agreed to amend the statute and authorize the Company's Management Board until 31 December 2020 to one or several increases of the share capital within the limits of the target capital by issuing no more than 150 thousand ordinary G series shares for acquisition projects.

3.2

Polish market (share of sales in the quarter: 65%)

Key developments in Q3 2019 included the implementation of changes to our new products and services portfolio, and the deployment and adoption of new sales processes related to the development of our SaaS model and B2B sales via e-commerce automation packages. With our new portfolio, we were able to expand the range of our services to make our e-commerce business even more competitive. In addition, we had two new members join our Sales Team, bringing in lots of experience and new ideas to expand both direct and partnership-based sales.

Shoper.pl: We introduced a regular subscription plan for our new customers to help shops that use our app better manage their development budgets. Also, we started a campaign to encourage shops on this platform to become more active, and its results are expected to be observed in the following months.

3.3

Foreign markets (share of sales in the quarter: 35%)

This month also saw an increase in sales on foreign markets. In Q3 2018 it was 26% and this year we've gained 35%.

3.3.1

The Czech and Slovakian market

On the Czech and Slovak markets, the key development in Q3 was the expansion of our SaaS channel. Our Company analysed its first platform implementations, and introduced some changes to further automate application deployment. In addition, selected customers could enjoy some new functions, which will soon become available to everyone on CreativeSites.sk.

On Shoptet.cz, our QuarticOn app has a conversion rate of over 20% between its Trial and Paid plans (quarterly). Our Company ran marketing and optimisation campaigns to support application installation and conversion levels.

Via its traditional sales channel, the Company has won another customer from the bookselling sector, becoming a leading recommendation service provider in this e-commerce store group.

3.3.2

UK market

Because of its intensified SaaS operations, our Company has adjusted its previous plans and postponed its expansion to the UK market to the first half of 2020.

3.4

Marketing and customer care

Marketing

During this quarter, our Marketing Team was committed to implementing our modern CRM tool, develop our partnership programme, including partner events, and making some content changes.

We continued to follow our marketing strategy and published expert content online, including webinars dedicated to specific e-commerce topics. We were also invited by Publicis Groupe to contribute to the largest report on e-commerce consumers in Poland, “**Kręte ścieżki konsumenta w e-commerce**” (eng. “Winding consumer paths in e-commerce” – report in Polish only). The report had its premiere during a conference where our representatives joined other experts to discuss the future and personalisation of the e-commerce market.

One of our top priorities, which we started in Q3, was to develop and produce training and educational materials in the form of short video clips (some 40 h in total). This is part of the redevelopment of our Help & Support Centre as a whole, and it started in this last quarter to significantly automate our communication with customers. We expect this to, on the one hand, give us more control over the churn rate, and on the other hand, help our Customers benefit more from what QuarticOn has to offer.

Customer Success

In relation to CS, we focused on three projects:

- **Automating customer communication to embrace customer lifecycle (anti-churn efforts).** In Q3, we created and implemented a final solution to support automatic communication with customers during onboarding, notifications about the trial period, and changes to our product and service portfolio. Such communication uses chat and e-mail. We are going to gradually launch new forms of communication to reduce our churn rate.
- **Restructuring departments and transferring technical support to the IT Department.** These changes address the need to improve the quality and efficiency of helpdesk as our front desk operation. As a result, the team members responsible for technical support are now involved on a daily basis with the Product Development Team and have constant access to their more advanced colleagues’ resources and know-how.

- **Developing Paid Support Plans.** Based on our previous experience and customer feedback, we have developed Support Plans. This solution is designed to provide more consistent support for each group of customers. This is achieved by improving information organisation to clearly explain what they can expect (as part of our support), clarifying which services are guaranteed, and which are provided only if requested by the customer (for an additional charge). Changes in this area of customer care are expected to optimise the scale of development requests and speed up their implementation.

Our key targets for the next quarter are to communicate with customers about the implementation of support plans and sell them (to existing and new customers), and to make changes, if necessary.

3.5

Average Revenue Per Customer (ARPC¹) and churn²

In Q3 2019, the average revenue per paying customer (ARPC) was EUR 0.47 and was 12% lower than in the previous quarter of 2019. These changes in the ARPC stem from the changes in customer structure: increasing share of SaaS customer lower the ARPC indicator. The company will soon introduce dedicated reporting of these indicators for both main sales channels. Our churn rate in Q3 was 4,5%, which is similar to previous periods. Our Company constantly works to develop new methods to reduce this rate (as described in this report). In Q3 alone, the Company had 8 new customers from direct channel.

1 ARPC - Average revenue per paying customer
2 churn - sales lost due to leaving customers

3.6

R&D and IT infrastructure

Platforms: QuarticOn app was launched and developed as SaaS on Shoptet.cz, a leading e-commerce platform in the Czech Republic. With our application, online shops on that platform can harness the power of recommendations to better meet their customers' needs. We also made some improvements to Shoper.pl to make it work better and be more functional.

In addition to the launch of the above-mentioned local platforms, the Company spent a lot of time to enhance (functionally optimise) our Shopify app. The app was published on 7th of November on that platform.

Products: Over the last quarter, we worked hard to develop our new AI-based product designed to make online shopping more seamless and efficient. Its first implementations are expected to take place in Q4 2019. The Company believes this product shows good sales prospects, both domestically and internationally. In addition, we worked on the optimisation of Marketing Automation functionality.

Infrastructure and resources: In Q3, the Company made changes and improvements to its system for monitoring services provided to customers, which is expected to make our solutions more sustainable. Moreover, together with the Customer Success Team, we laid the groundwork for the implementation of our new Customer Support Plans. During this period, we also consolidated our distributed IT teams to help them deliver comprehensive services for specific assignments and projects. Thanks to work aggregation, combined with scaled-down processes and performance gains, we were able to not only optimise costs but also fast-track our product development and service implementations with customers.

4

Information on the Company's subsidiaries

The Company holds 50% of shares in the company QuarticOn (Shanghai) Company Ltd., however, this company has not started its business operations yet and has had no significant impact on the operations of the Company. According to art 58.1 of the Accounting Act, there is no necessity for consolidation of this subsidiary. QuarticOn is considering using this company in the future to provide its services on Asian markets.

On March 19, 2019, QuarticOn Ltd. with its registered office in London was incorporated. QuarticOn S.A. is a 100% shareholder of this company. As at the date of the report, the Company has not yet begun operating, so revenues and expenses at the end of the first quarter of 2019 amounted to 0 GBP.

The Company decided to postpone the start of the QuarticOn Ltd. activity until 1st half of 2020 (due to the priority of developing the SaaS channel).

Therefore, QuarticOn is released from the obligation to consolidate the subsidiaries, pursuant to art. 58 paragraph 1 of the Accounting Act.



5

Information on the Company's shareholder structure

Based on the best knowledge of the Company, the share the shareholding structure of QuarticOn S.A. as of the date of publication of this report, on 14th November 2019, it is as follows:

shareholder	Number of stocks *	share
Venture FIZ	251 000	20,3%
CBNC Capital Solutions Ltd.	192 500	15,6%
Q Free Trading Limited	123 500	10,0%
Kamil Cisto	118 500	9,6%
ACATIS Investments KVG mbH	118 000	9,5%
Paweł Wyborski	81 307	6,6%
Paulina Zamojska	72 574	5,9%
Others **	277 892	22,5%
Total	1 235 273	100,0%

* including class A, B, C and E share series
 ** including key employees (ESOP)



6

Information on the number of persons employed

At the end of September 2019, the Company employed or cooperated with 49 persons (counted on a full-time basis) including those having a contract of employment, contract of mandate or those having their own companies.

7

Forecasts of financial results

The company did not published forecasts of financial results for 2019.

8

Implementation of the development activities presented in Information Memorandum (DI)

Development activities presented in DI:

- Development of the application for e-shop platforms – see paragraph 3.6
- New product solutions – see paragraph 3.6
- Market activities on new markets – see paragraph 3.3 and 3.4



9

Shortened financial statement

9.1

Introduction

Basic information of the Company:

Name of the company	QuarticOn Spółka Akcyjna
Seat:	Warsaw, Poland
Address:	02-017 Warsaw, Al. Jerozolimskie 123A
Incorporation date:	Notary deed of 13.05.2011 r.
<p>Entry to the Register of Entrepreneurs under National Court Register Number KRS 0000389015. The entry has been made by the District Court in Warsaw, 12th Commercial Division of the National Court Register on 11.06.2011. In result of a transformation into Spółka Akcyjna (Joint Stock Company), new number has been granted: KRS 0000715276.</p>	
Polish Taxpayer Identification Number (NIP):	5213608082
Polish Business Registry Number (REGON):	142977414
On behalf of the Issuer, the following persons operate:	Wyborski Paweł – President of the Board Giergielewicz Michał – Member of the Board

All financial information has been presented in thousands of Euro (€). Used exchange rates:

- 3rd Quarter of 2018: 1 EUR = 4.2714 PLN (zł)
- 2nd Quarter of 2019: 1 EUR = 4.2520 PLN (zł)
- 3rd Quarter of 2019: 1 EUR = 4.3736 PLN (zł)

9.2

Bilans

Assets

(in thou. EUR)		As of 30.09.2019	As of 30.09.2018
A.	Fixed assets	1 965,9	1 915,6
I.	Intangible and legal assets	1 628,3	551,9
1.	R&D expenses	1 615,7	551,8
2.	Goodwill	0,0	0,0
3.	Other intangible assets	12,5	0,1
4.	Advances for intangible assets	0,0	0,0
II.	Tangible fixed assets	8,0	15,6

1.	Tangible fixed assets in use		8,0	15,6
	a)	land (including right to perpetua usufruct)	0,0	0,0
	b)	buildings, premises, civil and water engineering structures	0,0	0,0
	c)	technical equipment and machines	7,7	14,8
	d)	means of transport	0,0	0,0
	e)	other tangible fixed assets	0,3	0,8
2.	Tangible fixed assets under construction		0,0	0,0
3.	Advances for tangible fixed assets under construction		0,0	0,0
III.	Long-term receivables		0,0	0,0
1.	From related parties		0,0	0,0
2.	From other parties, in which the company holds capital commitment		0,0	0,0
3.	From other parties		0,0	0,0
IV.	Long-term investments		329,6	0,0
1.	Real property		0,0	0,0
2.	Intangible and legal assets		329,6	0,0
3.	Long-term financial assets		0,0	0,0
	a)	in related parties	0,0	0,0
	b)	in other parties, in which the company holds capital commitment	0,0	0,0
	c)	in other parties	0,0	0,0
4.	Other long-term investments		0,0	0,0
V.	Long-term prepayments		0,0	1 348,1
1.	Deferred tax assets		0,0	0,0
2.	Other prepayments		0,0	1 348,1
B.	Current assets		400,3	1 862,9
I.	Inventory		0,0	0,0
1.	Materials		0,0	0,0
2.	Intermediate products and work in progress		0,0	0,0
3.	Finished products		0,0	0,0
4.	Goods		0,0	0,0
5.	Advances for deliveries and services		0,0	0,0
II.	Short-term receivables		239,8	326,1
1.	Receivables from related parties		0,0	0,0
	a)	trade receivables, maturing:	0,0	0,0
		- up to 12 months	0,0	0,0
		- over 12 months	0,0	0,0
	b)	other	0,0	0,0

2.	Receivables from other entities in which the company holds capital commitment		0,0	0,0
	a)	trade receivables, maturing:	0,0	0,0
		- up to 12 months	0,0	0,0
		- over 12 months	0,0	0,0
	b)	other	0,0	0,0
3.	Receivables from other ent		239,8	326,1
	a)	trade receivables, maturing:	186,2	233,9
		- up to 12 months	186,2	233,9
		- over 12 months	0,0	0,0
	b)	receivables from tax, subsidies, customs, social security and other benefits	20,1	31,8
	c)	other	33,6	60,4
	d)	claimed at court	0,0	0,0
III.	Short-term investments		154,6	1 536,5
1.	Short-term financial assets		154,6	1 536,5
	a)	in related parties	0,0	0,0
	b)	in other parties	0,0	0,0
	c)	cash and other pecuniary assets	154,6	1 536,5
2.	Other short-term investments		0,0	0,0
IV.	Short-term prepayments		5,9	0,4
C.	Called up share capital not paid		0,0	0,0
D.	Own shares (stocks)		0,0	0,0
Total Assets			2 366,2	3 778,5

Equity and liabilities

(in thou. EUR)		As of 30.09.2019	As of 30.09.2018
A.	EQUITY	1 486,7	2 549,5
I.	Share capital	28,2	25,0
II.	Supplementary capital, including	4 136,0	4 235,0
	- share (stock) premium	4 136,0	4 235,0

III.	Revaluation reserve, including:	0,0	0,0
	- from fair value adjustment	0,0	0,0
IV.	Other reserve capitals	0,0	4,0
	- created in accordance to articles of incorpor. of the Company	0,0	4,0
	- on own shares (stocks)	0,0	0,0
V.	Profit (loss) from previous years	-1 837,4	-1 462,3
VI.	Nett profit (loss)	-840,2	-252,1
VII.	Write-off on net profit during the financial year (negative value)	0,0	0,0
B.	Liabilities and provisions for liabilities	879,5	1 229,0
I.	Provisions for liabilities	34,4	52,7
1.	Provision for deferred income tax	0,0	0,0
2.	Provision for retirement and similar benefits	0,0	0,0
	- long-term	0,0	0,0
	- short-term	0,0	0,0
3.	Other provisions	34,4	52,7
	- long-term	0,0	0,0
	- short-term	34,4	52,7
II.	Long-term liabilities	0,0	0,0
1.	To related parties	0,0	0,0
2.	To other parties in which the company holds capital commitment	0,0	0,0
3.	To other parties	0,0	0,0
a)	credits and loans	0,0	0,0
b)	arising from issuance of debt securities	0,0	0,0
c)	other financial liabilities	0,0	0,0
d)	liabilities on bills of exchange	0,0	0,0
e)	other	0,0	0,0
III.	Short-term liabilities	808,8	1 101,9
1.	To related parties	59,7	61,1
a)	trade liabilities, maturing:	0,0	0,0
	- up to 12 months	0,0	0,0
	- over 12 months	0,0	0,0
b)	other	59,7	61,1
2.	To other parties in which the company holds capital commitment	0,0	0,0
a)	trade liabilities, maturing:	0,0	0,0
	- up to 12 months	0,0	0,0
	- over 12 months	0,0	0,0

	b)	other	0,0	0,0
3.	To other parties		749,1	1 040,8
	a)	credits and loans	585,0	819,3
	b)	arising from issuance of debt securities	0,0	0,0
	c)	other financial liabilities	0,0	0,0
	d)	trade liabilities, maturing:	133,9	177,6
		- up to 12 months	133,9	177,6
		- over 12 months	0,0	0,0
	e)	received advances for deliveries	0,0	0,0
	f)	liabilities on bills of exchange	0,0	0,0
	g)	tax, customs, insurance and other liabilities	21,2	36,1
	h)	payroll liabilities	8,7	7,7
	i)	other	0,2	0,1
4.	Special funds		0,0	0,0
IV.	Accruals		36,4	74,4
1.	Negative goodwill		0,0	0,0
2.	Other accruals		36,4	74,4
		- long-term	0,0	0,0
		- short-term	36,4	74,4
Total Liabilities			2 366,2	3 778,5

9.3

9.3. Profit and loss statement

(in thou. EUR)		YTD 2019	Only QIII 2019	YTD 2018	Only QIII 2018
A.	Net revenue from sales	794,1	249,1	770,2	263,2
	from related parties	0,0	0,0	0,0	0,0
I.	Net revenue from sales of products	794,1	249,1	770,2	263,2
II.	Change in the balance of products (increase - positive value, decrease - negative value)	0,0	0,0	0,0	0,0
III.	Costs of manufacturing products for internal purposes	0,0	0,0	0,0	0,0
IV.	Net revenue from sales of goods and materials	0,0	0,0	0,0	0,0
B.	Operating expenses	1 642,6	485,3	978,9	354,4
I.	Amortisation and depreciation	447,3	138,9	185,6	61,9
II.	Consumption of materials and energy	13,6	3,1	14,1	5,4
III.	External services	664,7	186,8	514,3	187,0
IV.	Taxes and charges, including:	8,5	0,6	5,3	2,2
	- excise duty	0,0	0,0	0,0	0,0
V.	Payroll	434,9	133,5	203,0	73,9
VI.	Social security and other benefits, including:	56,0	17,2	20,4	6,4
	- retirement benefits	33,6	10,3	11,9	4,1
VII.	Other prime costs	17,7	5,0	36,1	17,7
VIII.	Value of goods and materials sold	0,0	0,0	0,0	0,0
C.	Profit (loss) on sales (A - B)	-848,5	-236,1	-208,7	-91,3
D.	Other operating revenues	40,3	3,5	0,0	0,0
I.	Gain on disposal of non-financial fixed assets	0,9	0,9	0,0	0,0
II.	Subsidies	0,0	0,0	0,0	0,0
III.	Other operating revenues	34,2	0,0	0,0	0,0
IV.	Other operating revenues	5,2	2,6	0,0	0,0
E.	Other operating expenses	3,5	1,2	0,1	0,0
I.	Loss on disposal of non-financial fixed assets	0,0	0,0	0,0	0,0
II.	Revaluation of non-financial assets	0,0	0,0	0,0	0,0
III.	Other operating expenses	3,5	1,2	0,1	0,0
F.	Profit (loss) on operating activities (C+D-E)	-811,7	-233,8	-208,8	-91,3
G.	Financial revenues	4,8	0,7	0,0	0,0
I.	Dividend and profit sharing, including:	0,0	0,0	0,0	0,0

	a) from related parties, including:	0,0	0,0	0,0	0,0
	- those in which the company holds capital commitment	0,0	0,0	0,0	0,0
	b) from other parties, including:	0,0	0,0	0,0	0,0
	'- those in which the company holds capital commitment	0,0	0,0	0,0	0,0
II.	Interest, including:	4,0	0,7	0,0	0,0
	- from related parties	0,0	0,0	0,0	0,0
III.	Revenue from disposal of financial assets, including:	0,0	0,0	0,0	0,0
	- in related parties	0,0	0,0	0,0	0,0
IV.	Revaluation of financial assets	0,0	0,0	0,0	0,0
V.	Other	0,8	0,0	0,0	0,0
H.	Financial expenses	33,3	11,3	43,3	37,7
I.	Interest, including:	32,1	10,8	34,4	34,3
	- for related parties	0,0	0,0	0,0	0,0
II.	Loss on disposal of financial assets, including:	0,0	0,0	0,0	0,0
	- for related parties	0,0	0,0	0,0	0,0
III.	Revaluation of financial assets	0,0	0,0	0,0	0,0
IV.	Other	1,2	0,5	8,9	3,4
I.	Gross profit (loss) (F+G-H)	-840,2	-244,4	-252,1	-128,9
J.	Income tax	0,0	0,0	0,0	0,0
K.	Other statutory reductions in profit (increases in loss)	0,0	0,0	0,0	0,0
L.	Net profit (loss) (I-J-K)	-840,2	-244,4	-252,1	-128,9

9.4

Cash flow statement

(in thou. EUR)		YTD 2019	QIII 2019	YTD 2018	QIII 2018
A.	Cash flow from operating activities - indirect method				
I.	Net profit (loss)	-840,2	-244,4	-252,1	-128,9
II.	Total adjustments	500,3	237,0	-270,1	-148,3
	1. Amortisation and depreciation	447,3	138,9	184,9	61,2
	2. Profit (loss) from differences of exchange rates	0,0	0,0	0,0	0,0
	3. Interest and profit sharing (dividend)	6,6	-11,3	34,2	34,2
	4. Profit (loss) on investment activities	0,0	0,0	0,0	0,0
	5. Change in provisions	13,6	3,7	18,0	10,5
	6. Changes in inventory	4,6	0,0	0,0	0,0
	7. Change in the balance of receivables	59,3	38,4	-116,9	-100,4
	8. Change in short-term liabilities excluding credits and loans	-6,4	68,6	104,5	64,3
	9. Change in prepayments and accruals	7,7	-1,3	-494,9	-218,2
	10. Other adjustments	-32,4	0,0	0,0	0,0
III.	Net cash flow from operating activities (I+/-II)	-339,9	-7,4	-522,2	-277,3
B.	Cash flows from investment activities	0,0	0,0	0,0	0,0
I.	Inflows	4,6	1,2	0,0	0,0
	1. Disposal of intangible and legal assets, tangible fixed assets	0,6	0,6	0,0	0,0
	2. Disposal of investments in real property and in intangible and legal assets	0,0	0,0	0,0	0,0
	3. From financial assets, including:	4,0	0,7	0,0	0,0
	a) in related parties	0,0	0,0	0,0	0,0
	– disposal of financial assets	0,0	0,0	0,0	0,0
	– dividends and profit sharing	0,0	0,0	0,0	0,0
	– repayment of granted long-term loans	0,0	0,0	0,0	0,0
	– interest	0,0	0,0	0,0	0,0
	– other inflows from financial assets	0,0	0,0	0,0	0,0
	b) in other parties	4,0	0,7	0,0	0,0
	– disposal of financial assets	0,0	0,0	0,0	0,0
	– dividends and profit sharing	0,0	0,0	0,0	0,0

		– repayment of granted long-term loans	0,0	0,0	0,0	0,0
		– interest	4,0	0,7	0,0	0,0
		– other inflows from financial assets	0,0	0,0	0,0	0,0
	4.	Other inflow from investment activities	0,0	0,0	0,0	0,0
II.	Outflows		346,4	116,0	0,0	0,0
	1.	Purchase of intangible and legal assets, tangible fixed assets	16,7	2,1	0,0	0,0
	2.	Investment in real property, intangible and legal assets	329,6	114,0	0,0	0,0
	3.	For financial assets, including:	0,0	0,0	0,0	0,0
		a) in related parties	0,0	0,0	0,0	0,0
		– purchase of financial assets	0,0	0,0	0,0	0,0
		– long-term loans granted	0,0	0,0	0,0	0,0
		b) in other entities	0,0	0,0	0,0	0,0
		– purchase of financial assets	0,0	0,0	0,0	0,0
		– long-term loans granted	0,0	0,0	0,0	0,0
	4.	Other outflows from investment activities	0,0	0,0	0,0	0,0
III.	Net cash flows from investment activities (I-II)		-341,7	-114,8	0,0	0,0
C.	Cash flows from financial activities		0,0	0,0	0,0	0,0
I.	Inflows		0,0	0,0	2 102,2	1 809,6
	1.	Net inflows from issuance of shares and other capital instruments and from capital contributions	0,0	0,0	1 786,2	1 786,2
	2.	Credits and loans	0,0	0,0	316,1	23,4
	3.	Issuance of debt securities	0,0	0,0	0,0	0,0
	4.	Other inflows from financial activities	0,0	0,0	0,0	0,0
II.	Outflows		50,7	5,1	101,2	94,4
	1.	Purchase of own shares (stocks)	0,0	0,0	0,0	0,0
	2.	Dividend and payments to stockholders	0,0	0,0	0,0	0,0
	3.	Profit distribution liabilities other than profit distribution payments to stockholders	0,0	0,0	0,0	0,0
	4.	Repayment of credits and loans	34,3	0,0	0,0	0,0
	5.	Redemption of debt securities	0,0	0,0	0,0	0,0
	6.	Payment of other financial liabilities	0,0	0,0	0,0	0,0
	7.	Payment of liabilities arising from financial leases	0,0	0,0	0,0	0,0
	8.	Interest	16,4	5,1	6,7	0,0
	9.	Other outflows from financial activities	0,0	0,0	94,4	94,4
III.	Net cash flow from financial activities (I-II)		-50,7	-5,1	2 001,1	1 715,1
D.	Total net cash flows (A.III+/-B.III+/-C.III)		-732,3	-127,4	1 478,9	1 437,9

E.	Balance sheet change in cash, including:	-732,3	-127,4	1 478,9	1 437,9
	- change in cash due to exchange differences	0,0	0,0	0,0	0,0
F.	FCash opening balance	886,9	281,9	57,6	98,6
G.	Cash closing balance (F+/- D), including:	154,6	154,6	1 536,5	1 536,5
	- of limited disposability	0,0	0,0	0,0	0,0

9.5

Statement of changes in equity

		(in thou. EUR)	As of 30.09.2019	As of 30.09.2018
I.	Opening balance of equity (OB)		2 326,9	1 109,9
	a) changes in accounting principles		0,0	0,0
	b) corrections of basic errors		0,0	0,0
	c) capital increases		0,0	0,0
I.a.	Opening balance of equity (OB) after adjustments		2 326,9	1 109,9
1.	Opening balance of share capital		28,2	25,0
	1.2. Closing balance of share capital		28,2	25,0
2.	Opening balance of called up share capital		0,0	0,0
	2.1. Changes in called up share capital		0,0	0,0
	a) increase (due to)		0,0	0,0
	- called up share capital not paid		0,0	0,0
	b) decrease (due to)		0,0	0,0
	2.2. Closing balance of called up share capital		0,0	0,0
3.	Opening balance of own shares		0,0	0,0
	3.1. Increase in own shares		0,0	0,0
	3.2. Closing balance of own shares		0,0	0,0
4.	Opening balance of supplementary capital		4 136,0	2 547,2
	4.1. Changes in supplementary capital		0,0	1 687,8

	4.2. Closing balance of supplementary capital	4 136,0	4 235,0
5.	Opening balance of revaluation reserve	0,0	0,0
	5.1. Changes in revaluation reserve	0,0	0,0
	5.2. Closing balance of revaluation reserve	0,0	0,0
6.	Opening balance of other reserve capitals	0,0	0,0
	6.1. Changes in other reserve capitals	0,0	4,0
	6.2. Closing balance of other reserve capitals	0,0	4,0
7.	Opening balance of previous years' profit (loss)	-1 428,1	-865,6
	7.1. Opening balance of previous years' profit	0,0	0,0
	a) changes of adopted accounting principles	0,0	0,0
	b) adjustments of fundamental errors	0,0	0,0
	7.2. Opening balance of previous years' profit after reconciliation to comparable data	0,0	0,0
	7.3. Closing balance of previous years' profit	0,0	0,0
	7.4. Opening balance of previous years' loss	-1 428,1	-865,6
	a) changes of adopted accounting principles	0,0	0,0
	b) adjustments of fundamental errors	0,0	0,0
	7.5. Opening balance of previous years' loss after reconciliation to comparable data	-1 428,1	-865,6
	7.6. Closing balance of previous years' loss	-1 837,4	-1 462,3
	7.7. Closing balance of previous years' profit (loss)	-1 837,4	-1 462,3
8.	Net result	-840,2	-252,1
	a) net profit	0,0	0,0
	b) net loss	-840,2	-252,1
	c) write-offs on profit	0,0	0,0
II.	Closing balance of equity (CB)	1 486,7	2 549,5
III.	Equity including proposed profit distribution (loss coverage)	1 486,7	2 549,5

9.6

Additional information (3rd quarter of 2019)

Sales structure

(in thou. EUR)	01.07.2019–30.09.2019	01.07.2018–30.09.2018
Revenue from sales of products	249,1	263,1
- In Poland	161,3	195,3
- Other countries	87,8	67,8

Investments

(in thou. EUR)	01.07.2019–30.09.2019	01.07.2018–30.09.2018
R&D Investment Offset I	114,0	206,6



9.7

Principles adopted for drawing up of the financial statement

Accounting books of the Company are being kept in accordance to the provision of the Accounting Act of 29th September 1994.

Tangible and intangible assets

Tangible and intangible assets are being valued at purchase costs lowered by depreciation and impairment write-offs.

Price of acquiring fixed assets includes also servicing costs of liabilities incurred for funding them for the period of assembly and adaptation, as well as exchange rate differences lowered by revenue from that asset. The price of a fixed asset is increased by its improvements consisting in rebuilding, modernization and extension that make its use value higher than it was at the moment of putting into use.

Leased fixed assets put into use on a basis of leasing agreement are included into fixed assets, if the agreement complies with conditions stipulated in Art. 3 section 4 of the Accounting Act.

In case of liquidation, withdraw from service or other events causing loss of value of a fixed asset or an item of intangible and legal assets, a write-off is being carried out revaluing its value into other operating expenses. If the reason for the asset impairment write-off ceases, value equal to the entire asset or its constituent part previously wrote-off increases the value of an asset and is included respectively into other operating revenue.

Depreciation is being carried out with use of the straight-line method, established individually for each intangible and legal asset. Standard depreciation period and annual depreciation rate are established with useful economic life of an asset taken into account. Correctness of adopted periods and rates is verified periodically.

Non-property assets with initial value below PLN 3 500,00 are written-off once, in the month they are put into use.

Capital work in progress is valued in the amount of total direct costs of acquiring, lowered by impairment write-offs.

Capital work in progress is not depreciated until it is finished and put into use.

Investments

Investments cover assets acquired from economical benefits caused by increase in value of these assets, revenue acquired from them in form of interest, dividends (share in profit) or other benefits, including trade transactions. In particular, investments are financial assets, real estate and intangible assets that are not used by the Company, but were acquired for the purpose of these benefits.

Real estate and intangible and legal assets included into investments are valued in accordance to the principles for valuing fixed assets and intangible and legal assets.

Shares in subsidiaries are valued in accordance to purchase price with possible impairment taken into account.

Receivables

Receivables are valued in the amount due, with observation of conservative valuation principle and presented in their net value (lowered by impairment write-downs).

Value of receivables is subject to periodic revision, taking into account the probability for it being paid through an impairment write-off. Impairment write-offs are also being made for receivables brought to court. Impairment write-offs are included respectively to other operating or financial expenses in dependence of the type of receivable the write-off concerns.

Inventory

The value of the inventory is calculated on the basis of purchase price, while rotation is valued with use of the FIFO principle.

In the balance, inventory is presented at its net value, i.e. lowered by the value of write-downs caused by it being valued in accordance to its net sales value.

Cash and cash equivalents

Cash in bank and at hand is valued in accordance to its nominal value.

Prepayments and accruals

Prepayments are being presented in relation to costs incurred that concern the future reporting periods.

Accruals are being presented in the value of probable debts in the current reporting period, caused in particular:

- by payments made for the benefit of the unit by its trade partners, if the debt value can be realistically valued,
- by obligations related to current activity, future payments to unknown parties that can be estimated despite the fact that the day when liability will arise is not known yet, including warranty repairs and statutory warranty for long life products sold.

Equity

Equity is presented in the amount indicated in the articles of incorporation and entered into the court register. Declared, but not paid capital contributions are presented as called up share capital not paid. Supplementary capital is made from additional contributions. Reserve capital is made from previous years' profit.

Provisions for liabilities

Provisions for liabilities are presented in their justified, reliably estimated value.

These provisions are being made for:

- definite or largely probable future liabilities, the amount of which can be reliably estimated, in particular for losses from economic transactions in progress, for warranties made, guarantees, credit operations, results of court proceedings in progress;
- retirement and disability packages required by provisions of Art. 92 of the Labour Code. The provision is made in amount basing on the estimated probability of reaching retirement age in a 5-year age ranges.

Liabilities

Liabilities are being presented in the amount due.

Unearned revenue

Unearned revenue is valued in accordance to conservative valuation principle and cover the value of funds received or due from trade partners to be paid in future reporting periods.

Deferred income tax

The company stopped estimating assets due to deferred income tax, because the difference between the gross financial result and tax base - after eliminating the so-called fixed differences - is minimal.

Revenue recognition

Sales revenue is recognized in the moment the goods are supplied or the service is provided. Sale present the net value, i.e. not considering VAT and any rebates granted.

Costs

The costs incurred are presented in the profit and loss account to be compared to revenue in a given period.

Quarticon Board



Paweł Wyborski
Prezes Zarządu



Michał Giergielewicz
Członek Zarządu



Quarticon S.A.



- 📍 Al. Jerozolimskie 123A, 02-017 Warsaw
- ☎ +48 22 844 02 51
- ✉ contact@quarticon.com
- 🌐 www.quarticon.com

