



QuarticOn S.A.

# QUARTERLY REPORT

## 3rd quarter of 2020

# Table of contents

<b>1 Management Board's Commentary</b> .....	3
<b>2 Covid-19 impact on QuarticOn's business</b> .....	5
<b>3 The most important financial data for the third quarter of 2020</b> .....	6
<b>4 Key events in 3rd quarter of 2020</b> .....	8
<b>4.1 Polish market (share of sales in the quarter: 68%)</b> .....	8
<b>4.2 Foreign markets (share of sales in the quarter: 32%)</b> .....	9
<b>4.3 Marketing and customer success</b> .....	10
<b>4.4 IT and products</b> .....	11
<b>4.5 Average Revenue Per Customer (ARPC) and churn</b> .....	12
<b>5 Information on the Company's subsidiaries</b> .....	13
<b>6 Information on the Company's shareholder structure</b> .....	14
<b>7 Information on the number of persons employed</b> .....	14
<b>8 Forecasts of financial results</b> .....	14
<b>9 Definition and indicators explanation</b> .....	15
<b>10 Shortened financial statement</b> .....	16
<b>10.1 Introduction</b> .....	16
<b>10.2 Balance sheet</b> .....	17
<b>10.3 Profit and loss statement</b> .....	20
<b>10.4 Cash flow statement</b> .....	21
<b>10.5 Statement of changes in equity</b> .....	23
<b>10.6 Additional information (3rd quarter of 2020)</b> .....	24
<b>10.7 Principles adopted for drawing up of the financial statement</b> .....	25

# 1 Management Board's Commentary

## Ladies and Gentlemen,

The coincidence of the pandemic with the summer season in Q3 2020 was a considerable challenge for the Company. On the one hand, the expected consequences of the economic lockdown for QuarticOn's customers became a reality, affecting our sales (the increased churn rate mentioned in the last report). On the other hand, the holiday season further prolonged our sales processes. Nevertheless, with the increase in deployments over the last months, we were optimistically assuming neutral EBITDA in the said quarter. The result is nearly on target – we closed the quarter at EUR -5k **the best performance in the last two years**. We were close to but eventually did not achieve zero EBITDA due to several postponed contract signings.

The aforementioned increase in deployments in Q3 could be achieved through a stronger emphasis on direct-channel sales. Contract signings and new-customer additions should grow already in Q4 2020. By reallocating resources to this sales channel, allowing us to substantially increase revenues over a short period, we were, regrettably, forced to briefly reduce support for the SaaS channel and to postpone our SaaS action plans to Q4 2020. Recognising the considerable potential of this channel, we carry on working on new SaaS solutions, hoping to see the results soon.

In addition to sales processes as our main preoccupation, we spent a fair amount of time in Q3 on developing brand-new solutions. At that stage they involved analytical and conceptual work on two new projects. One of them is an **online fashion marketplace** based on proprietary AI algorithms designed to replace stylists – this project commenced already in October 2020 (see ESPI current report No. 24/2020). Thanks to our access to current data on store offerings, including apparel stores, we are able to build an online marketplace in which customers can use the services of a **virtual stylist**. This service involves AI creating personalised fashion styles and connecting consumers with stores in which they can buy their recommended garments. Surveys show that a whopping 80 percent of apparel stores customers would like to use styling-advice services. By incorporating AI in our concept, we are able to respond to market needs and seize the

opportunities afforded by online commerce as it becomes a growing sales channel amidst the pandemic.

New product developments were, however, not the only highlight of Q3. Our developer team substantially upgraded the recommendations engine by developing new methods and algorithms to provide a much more effective technology. In addition, we expanded our SmartSearch product search engine to include new languages (deployments in the Balkans, the Czech Republic and Slovakia). The growing sales of this product show that it perfectly feeds into the needs of online stores, which are preparing for e-commerce sales peaks.

We are optimistic to see the effects of our new solutions already in Q4 2020 – we are seeing that our actions in the last months are bringing positive impacts, hopefully translating into satisfactory results in the closing months of this year.

### Management Board of QuarticOn S.A.



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**Paweł Wyborski**

Founder  
President of the Management Board



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**Michał Giergielewicz**

Member of the Board

## 2 Covid-19 impact on QuarticOn's business

From the perspective of the pandemic, the quarter in question had a two-sided nature: its first part brought a relatively calmer sentiment (despite, or thanks to, summer holidays), while towards the end it was marked by growing uncertainty about the market situation as infections began to soar again (affecting especially customers with strong traditional sales channels). The clear change in sentiment due to the spring lockdown is a thing of the past, and we have resumed suspended negotiations, as well as entered into new ones, culminating in new contract signings and helping us to drive revenues from new customers.

The end of the third quarter is the period of pandemic return. It seems inevitable that COVID-19 will continue to have a critical impact on the economy. In our view the market sentiment that the e-commerce channel will be the only one to emerge successful from the pandemic creates a more friendly climate for discussions around solutions designed to support effective online sales, especially in the coming period, which is traditionally associated with strong sales. Predictions related to the year 2021 and beyond are, however, marked by greater uncertainty. A growing number of global companies have announced their plans to move their business online (e.g. GAP is planning to earn 80% of its revenues from the online channel<sup>1</sup>). Polish companies have also seen their online sales go up substantially (see CCC S.A. and its 82-percent increase<sup>2</sup>), so we can assume that the transition from traditional commerce to e-commerce will accelerate. Despite tangible concerns about the market condition, especially on the demand side, these developments represent a growth opportunity for QuarticOn S.A.

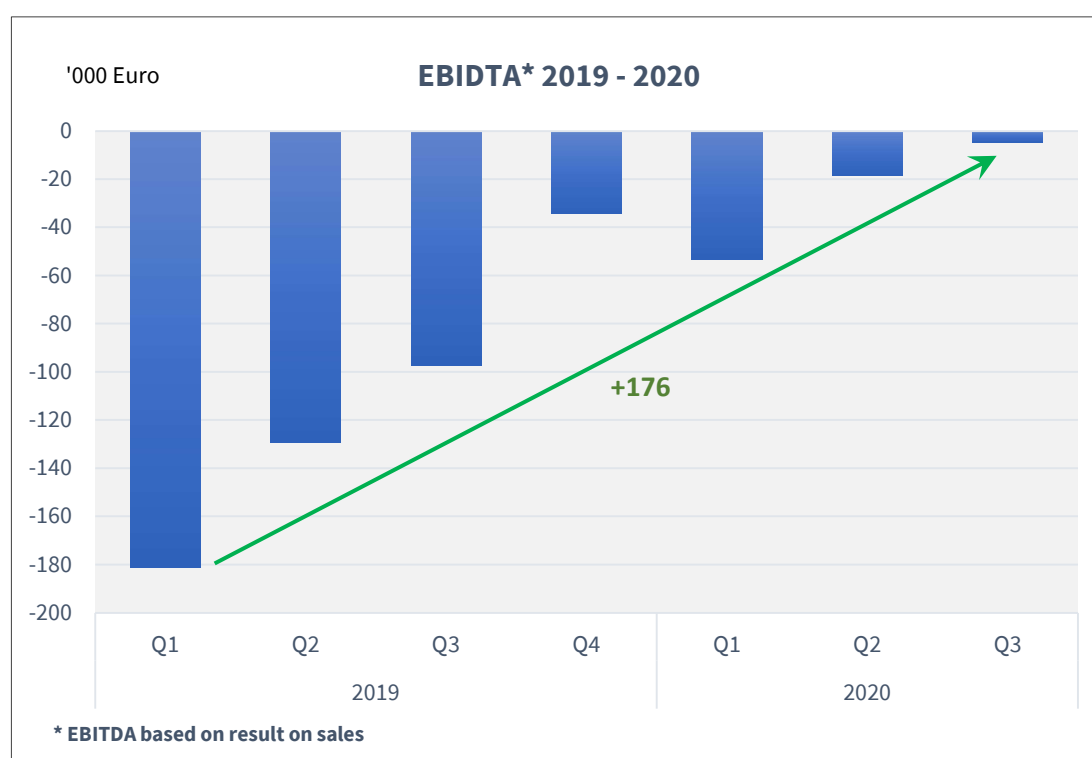
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<sup>1</sup> <https://www.parkiet.com/Gospodarka---Swiat/310249980-The-New-York-Times-Zmiana-strategii.html>

<sup>2</sup> <https://corporate.ccc.eu/grupa-ccc-po-ii-i-iii-kwartale-2020-szybka-odbudowa-sprzedazy-po-lockdownie-istotny-wzrost-rentownosci-w-kanale-online>

### 3 The most important financial data for the third quarter of 2020

The Q3 2020 financial results are much better than in the previous quarter. We have once again improved our EBITDA and sustained the upward trend in this respect (EBITDA improved by EUR 13.6k relative to Q2). During the 9 quarters, EBITDA improved by over EUR 170k.



The quarter-to-quarter drop in sales was, on the one hand, a seasonal effect (last year the Company recorded a decrease of -4,5 percent) and the result of the increased churn rate, on the other. What is nonetheless positive is the scale of deployments and very advanced negotiations on prospective contracts – Q3 2020 was particularly good in this regard, and we expect this to boost sales in Q4 2020. We managed to keep our operating costs at an optimised level, making sure to analyse them on an ongoing basis. Consequently, we were able to reduce them by EUR 34.4k relative to the previous quarter.

## Selected data from Profit and loss statement

Profit and loss statement	'000 Euro				
	IIIQ 2019	IIQ 2020	IIIQ 2020	IIIQ 2020 / IIIQ 2019	IIIQ 2020 / IIQ 2020
Net revenue from sales	249.1	229.7	209.0	-16.1%	-9.0%
Operating expenses excl. depreciation & amort.	-346.3	-248.0	-213.7	-38.3%	-13.9%
<b>EBITDA (based on result on sales)</b>	<b>-97.2</b>	<b>-18.4</b>	<b>-4.7</b>	<b>92.5</b>	<b>13.6</b>
EBIT (operating result)	-233.8	-146.4	-146.3	87.5	0.1
<b>Net result</b>	<b>-244.4</b>	<b>-159.6</b>	<b>-157.6</b>	<b>86.8</b>	<b>2.0</b>
Net revenue from sales excl. VOD clients	247.4	228.0	207.3	-16.2%	-9.1%

\* EBEBITDA – calculated based on 'result on sales' for monthly and quarterly results and based on 'result on operating activities' for annual results

When comparing Q3 2020 and Q3 2019 results, the differences are even more substantial: EBITDA improved by EUR 92.5k, and net income by EUR 86.8k compared to last year.

## Selected data from the balance sheet and cash flow statement

Balance sheet	'000 Euro	
	As of 30.09.2020	As of 30.09.2019
Fixed assets	1 337.1	1 636.3
- including intangible and legal assets	1 333.0	1 628.3
Current assets	473.7	729.9
- including short-term investments (excl. overdraft)	3.7	154.6
<b>Total Assets</b>	<b>1 810.8</b>	<b>2 366.2</b>
Equity	828.1	1 486.7
Liabilities and provisions for liabilities	982.7	879.5
- including short term liabilities	565.5	808.8
<b>Total Liabilities</b>	<b>1 810.8</b>	<b>2 366.2</b>

Cash Flow	'000 Euro	
	Cum 2020	Cum 2019
Net profit (loss)	-541.0	-840.2
Net cash flow from operating activities	105.6	-339.9
Net cash flow from financial activities	55.7	-50.7
Cash closing balance	3.7	154.6



## 4 Key events in 3rd quarter of 2020

### 4.1 Polish market (share of sales in the quarter: 68%)

The third quarter of the year is usually dominated by summer holidays, and consequently less online business, compared to other periods of the year. This year the market was additionally struggling with the pandemic, the tourist industry being one of the most-hit industries (with equally negative consequences for the Company's customers from the trade business).

Historically, the situation in this quarter has usually translated into poorer performance. This year was similar, although in terms of the sales-related process and new-customer acquisition, the period proved very intensive and hard-working for the Company. As e-commerce is gaining momentum, the Company was able to sign new contracts and deploy services for more than 50 new online stores in Europe. We provided updates on our key contracts through press releases (e.g. contracts with SportVision from the Balkans or Duka International from Poland). What is also extremely important is that a large number of new leads emerged in the sales funnel from the partnership agreement with Orange Polska and from other European partners.

In Q3 2020 the Company launched unique solutions based on first-party cookies, which significantly improves the conversion rate from the Company's services, driving revenues for its customers. In the case of contracts involving variable base conversion rates, this had a directly positive impact on the Company's revenues.

Due to the already mentioned summer season and, in some instances, the large scale of deployments, we expect that most sales outcomes will materialise in Q4 this year. And despite the considerable market uncertainty around "the virus", the intensity and scale of the Company's joint efforts with customers allows us to be mildly optimistic about our revenue building in the coming months.



## 4.2 Foreign markets (share of sales in the quarter: 32%)

QuarticOn is continuously developing foreign sales, and the recently secured contracts on the Czech and Balkan markets will help to offset the recent underperformance in foreign sales due to the pandemic.

### Czech market

The Company had an unusually intensive third quarter on the Czech and Slovak markets. Among others, it signed a service contract with the Czech Republic's largest apparel company, a distributor of brands such as GAP and Under Armour on the said markets. Combined with other contracts, some of which were successfully deployed at the end of the quarter, this will help the Company to build its sales growth potential in the months to come. Additionally, the Company is holding talks with new, medium-sized partners to have them promote and support the sales of QuarticOn's solutions to their customers.

### SaaS channel

Although the sales in this channel dropped (due to the loss of two customers with the highest pricing plans and the brief reduction of marketing support), the Company took a number of development measures. The two most important of them involved preparations to enter the Hungarian market (via the Shoptet Hungary platform) by launching the Reko and SmartSearch system, and the final phase of work on the SmartSearch plugin for Czech and Slovak customers, offering an even simpler installation process. We expect to secure first customers in Q4 2020. Also, work is in progress on the new version of the SmartSearch engine, which will be a fully autonomous SaaS app, allowing customers to set all the features and launch the program without any involvement from IT teams. The product should be on offer in the second half of the fourth quarter.



## 4.3 Marketing and customer success

In the quarter in question the Marketing Team was involved in supporting sales processes and improving the quality of customer service. All the efforts in this area aim to raise awareness among existing and potential customers about QuarticOn's services, build partner relations with customers and promote a positive image of the Company as an international brand.

Key efforts included:

- significant improvements to the newsletter made in response to a customer needs survey and competitor analysis, involving the development of a new form and the addition of extended content (e.g. to improve information on deployments of individual features adding new product possibilities for existing customers); we also increased our newsletter's frequency to 2-3 newsletters a month;
- Knowledge Base extension: adding new content (including materials on the new first-party domain solution, expanding the manual and the FAQ section for AI Smart Search and Marketing Automation) and ongoing updates to already published articles;
- a new form of product display: changing the product display method and redesigning each product display. The biggest novelty, however, will be the animated product videos – the scripts for them were prepared in the last quarter, and production will be completed in Q4 2020. This idea for explainer videos is a new way for reaching existing (cross-selling) and potential customers by showing them technologically advanced solutions in an accessible fashion. In addition, these videos serve to promote and showcase a modern company whose activities align with its business profile;
- preparing and launching a series of communications to customers in the SaaS channel and refreshing website contents encompassing specific products offered in this channel.

## 4.4 IT and products

In the third quarter we saw increased traffic on our customers' websites, contributing to greater use of our products: the recommendations engine, the SmartSearch engine and Marketing Automation. This period also involved deployments of our services for major customers at the Balkan market.

We added new features to our products to further improve their utility, both in marketing automation (optimising campaign creation through heatmap data analysis, compiling sender lists, pre-sale info and dedicated birthday emails) and SmartSearch (product grouping, e.g. according to colours, presentation of most-searched phrases, most-clicked products after opening the search engine and the extension of API to include availability management). An interesting novelty is the "social proof" widget, showing the number of users currently watching a product.

We are also constantly improving the customer panel which enables users to set parameters for all services. Last quarter the panel was expanded to include new features allowing users to manage products and product pictures.

Technology - wise, despite increased traffic, hosting costs remained at the same level. The SmartSearch product facilitated more than 13.5 million searches in Q3 (20 percent more than in the previous quarter), reaching almost 200,000 queries a day at peak times. The marketing automation system was used to send 5 million communications – twice more than in Q2.



## 4.5 Average Revenue Per Customer (ARPC<sup>1</sup>) and churn<sup>2</sup>

In Q3 2020 the Company recorded a slight decrease in its average revenue per customer (-2.6 percent) as a result of a much lower ARPC in the SaaS channel (a more than -23 percent decrease). This one-off drop in ARPC stems from customer-composition changes following the loss of two customers with relatively high monthly payments. Conversely, a slight increase was recorded in the traditional sales channel (1.6 percent).

### Individual channels had the following ARPC :

ARPC	in Euro		
	Q2 2020	Q3 2020	Change
Total	416	405	-2,6%
Traditional sales channel	627	637	1,6%
SaaS channel	67	50	-23,7%

As already stressed, the market perturbations caused by the pandemic increased the churn rate. However, while in Q2 the rate was particularly high (5.7 percent), Q3 already saw a downward trend in this figure (3.2 percent). The Company continues striving to further reduce this indicator.



<sup>1</sup> ARPC (Average revenue per paying customer)

<sup>2</sup> Churn - indicator showing loss of revenues as a result of customers churn

## 5 Information on the Company's subsidiaries

The Company holds 50% of shares in the company, a share in a shareholder company in QuarticOn (Shanghai) Company Ltd., which is not related to business work and has no significant influence on the company's operations.

The remaining 50% of the capital share in the above-mentioned the company is vested in Wan Sheng Asia Ltd based in Road Town in the British Virgin Islands. The company's initial capital was set at 118 thousand Euro. The value of liabilities and assets is also EUR 118k. Neither party paid the relevant shares and the Company did not start its activities. Therefore, the revenues and costs of the above-mentioned the companies at the end of the third quarter of 2020 amounted to EUR 0.

QuarticOn is considering using this company in the future to provide its services on Asian markets.

On March 19, 2019, QuarticOn Ltd. with its seat in London was registered. QuarticOn S.A. is a 100% shareholder in the share capital of this and has the same share of votes.

As at the date of the report, QuarticOn Ltd. did not increase its operating activities, the revenues and costs of which at the end of the third quarter of 2020 amounted to GBP 0. The company's liabilities and assets are £ 1000.

Due to the running of the current projects in the SaaS channel and the COVID19 pandemic situation, the Company has decided to postpone the start of the QuarticOn Ltd. activity for the year 2021.

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



## 6 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 16<sup>th</sup> November 2020, it is as follows:

Shareholder	Number of stocks*	Share
Venture FIZ	251 000	17.9%
CBNC Capital Solutions Ltd.	187 031	13.3%
Paweł Wyborski	174 723	12.4%
Q Free Trading Limited	123 500	8.8%
ACATIS Investment KVG mbH	134 100	9.5%
Kamil Cisko	118 500	8.4%
Paulina Zamojska	72 574	5.2%
Others **	342 872	24.4%
<b>Total</b>	<b>1 404 300</b>	<b>100.0%</b>

\* including class A, B, C, D, E and F share series

\*\* including key employees (ESOP)

## 7 Information on the number of persons employed

At the end of September 2020, the Company employed or cooperated with 24 persons (counted on a full-time basis) including those having a contract of employment, contract of mandate or those having their own companies.

## 8 Forecasts of financial results

The company did not published forecasts of financial results for IIIQ 2020.



## 9 Definition and indicators explanation

Indicator*	Source	Method of calculation	Usefulness
ARPC – average revenue per customer	Accounting and invoicing system	Total revenue (for the relevant period) / the number of customers invoiced (in the relevant period)	This indicator is helpful in assessing options for sales development, including through various sales channels (e.g. sometimes an increase in the number of customers brings about a decrease in the ARPU, with the overall revenue, however, continuing to grow)
EBITDA (as profit on sales)	Accounting system	Profit on sales plus depreciation	This indicator is used by QuarticOn for monthly and quarterly reporting – it is an approximate figure for profit from the Company's direct current business, which excludes any one-off accounting events (e.g. write-offs, revaluations of some reserves, typically made once a year at the end of December and covering an entire year, or past periods). Consequently, monthly or quarterly results are more comparable in the short term
EBITDA (as operating profit)	Accounting system	Operating profit plus depreciation (reduced by interest charges and taxes)	QuarticOn uses this indicator for annual reporting. It reflects the Company's profit from its direct business, including any write-offs and revaluations of reserves for other operating revenues and costs over a given year
Churn rate	Accounting and invoicing system	Total latest-month revenue from customers who stopped using the Company's services in the previous month relative to the previous month's total sales	This indicator provides an approximate figure for sales lost due to customers' leaving the Company. While there is no single benchmark, the lower the rate, the better
Result on operating activities	Accounting system	Result on sales plus other operating revenues less other operating costs	The company unifies the terms used: result on operating activities (in short: operating result or EBIT)

\* Note: none of the above indicators should be considered in isolation from other results of the Company



# 10 Shortened financial statement

## 10.1 Introduction

### Basic information for the company

**Name of the company:** QuarticOn Spółka Akcyjna

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**Seat:** Warsaw, Poland

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**Address:** 02-017 Warsaw, Al. Jerozolimskie 123A

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**Incorporation date** Notarial deed 13.05.2011

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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.

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**Polish Taxpayer Identification Number:** NIP: 5213608082

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**Polish Business Registry Number:** REGON: 142977414

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**On behalf of the Issuer, the following persons operate:** Wyborski Paweł – President of the Board  
Giergielewicz Michał – Member of the Board

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**Company's manner of representation:** Each member of the Board independently

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This quarterly report of QuarticOn S.A. was drawn up in accordance with the requirements of § 5 sec. 1 point 1 of Annex 3 to the Alternative Trading System Regulations - "Current and periodic information provided in the alternative trading system on the NewConnect market" in connection with the provisions of § 5 subpara. 3 and sec. 4.1 and 4.2. The financial data presented in this quarterly report of the Company includes data for the period from July 1<sup>st</sup> to September 30, 2020 and comparative data for the same period of the previous year. The balance sheet data is presented as at September 30, 2020, and the comparative data as at September 30, 2019.

All financial information has been presented in thousands of Euro (€).

Used exchange rates:

- 1st Quarter of 2020: 1 EUR = 4.5523 PLN (zł),
- 2nd Quarter of 2020: 1 EUR = 4.4660 PLN (zł),
- 3rd Quarter of 2020: 1 EUR = 4.5268 PLN (zł),
- 3rd Quarter of 2019: 1 EUR = 4.3736 PLN (zł).

## 10.2 Balance sheet

### Assets

Items		'000 Euro	
		As of 30.09.2020	As of 30.09.2019
<b>A.</b>	<b>Fixed assets</b>	<b>1 337.1</b>	<b>1 636.3</b>
<b>I.</b>	<b>Intangible and legal assets</b>	<b>1 333.0</b>	<b>1 628.3</b>
1.	R&D expenses	1 330.3	1 615.7
2.	Goodwill	0.0	0.0
3.	Other intangible assets	2.7	12.5
4.	Advances for intangible assets	0.0	0.0
<b>II.</b>	<b>Tangible fixed assets</b>	<b>2.9</b>	<b>8.0</b>
1.	Tangible fixed assets in use	2.9	8.0
	a) land (including right to perpetual usufruct)	0.0	0.0
	b) buildings, premises, civil and water engineering structures	0.0	0.0
	c) technical equipment and machines	2.9	7.7
	d) means of transport	0.0	0.0
	e) other tangible fixed assets	0.0	0.3
2.	Tangible fixed assets under construction	0.0	0.0
3.	Advances for tangible fixed assets under construction	0.0	0.0
<b>III.</b>	<b>Long-term receivables</b>	<b>0.0</b>	<b>0.0</b>
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
<b>IV.</b>	<b>Long-term investments</b>	<b>1.1</b>	<b>0.0</b>
1.	Real property	0.0	0.0
2.	Intangible and legal assets	0.0	0.0

Items		As of 30.09.2020	As of 30.09.2019
3.	Long-term financial assets	1.1	0.0
	a) in related parties	1.1	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
<b>V.</b>	<b>Long-term prepayments</b>	<b>0.0</b>	<b>0.0</b>
1.	Deferred tax assets	0.0	0.0
2.	Other prepayments	0.0	0.0
<b>B.</b>	<b>Current assets</b>	<b>473.7</b>	<b>729.9</b>
<b>I.</b>	<b>Inventory</b>	<b>0.0</b>	<b>0.0</b>
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
<b>II.</b>	<b>Short-term receivables</b>	<b>155.4</b>	<b>239.8</b>
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 entities	155.4	239.8
	a) trade receivables. maturing:	102.1	186.2
	- up to 12 months	102.1	186.2
	- over 12 months	0.0	0.0
	b) receivables from tax. subsidies. customs. social security and other benefits	21.1	20.1
	c) other	32.3	33.6
	d) claimed at court	0.0	0.0
<b>III.</b>	<b>Short-term investments</b>	<b>3.7</b>	<b>154.6</b>
1.	Short-term financial assets	3.7	154.6
	a) in related parties	0.0	0.0
	b) in other parties	0.0	0.0
	c) cash and other pecuniary assets	3.7	154.6
2.	Other short-term investments	0.0	0.0
<b>IV.</b>	<b>Short-term prepayments</b>	<b>314.6</b>	<b>335.5</b>
<b>C.</b>	<b>Called up share capital not paid</b>	<b>0.0</b>	<b>0.0</b>
<b>D.</b>	<b>Own shares (stocks)</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Assets</b>		<b>1 810.8</b>	<b>2 366.2</b>

## Equity and liabilities

'000 Euro

Items		As of 30.09.2020	As of 30.09.2019
<b>A.</b>	<b>EQUITY</b>	<b>828.1</b>	<b>1 486.7</b>
<b>I.</b>	<b>Share capital</b>	<b>31.0</b>	<b>28.2</b>
<b>II.</b>	<b>Supplementary capital, including</b>	<b>4 136.9</b>	<b>4 136.0</b>
	- share (stock) premium	4 136.9	4 136.0
<b>III.</b>	<b>Revaluation reserve, including:</b>	<b>0.0</b>	<b>0.0</b>
<b>IV.</b>	<b>Other reserve capitals</b>	<b>0.0</b>	<b>0.0</b>
<b>V.</b>	<b>Profit (loss) from previous years</b>	<b>-2 798.9</b>	<b>-1 837.4</b>
<b>VI.</b>	<b>Nett profit (loss)</b>	<b>-541.0</b>	<b>-840.2</b>
<b>VII.</b>	<b>Write-off on net profit during the financial year (negative value)</b>	<b>0.0</b>	<b>0.0</b>
<b>B.</b>	<b>Liabilities and provisions for liabilities</b>	<b>982.7</b>	<b>879.5</b>
<b>I.</b>	<b>Provisions for liabilities</b>	<b>32.7</b>	<b>34.4</b>
1.	Provision for deferred income tax	0.0	0.0
2.	Provision for retirement and similar benefits	6.2	0.0
	- long-term	0.0	0.0
	- short-term	6.2	0.0
3.	Other provisions	26.6	34.4
	- long-term	0.0	0.0
	- short-term	26.6	34.4
<b>II.</b>	<b>Long-term liabilities</b>	<b>351.2</b>	<b>0.0</b>
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	351.2	0.0
a)	credits and loans	351.2	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
<b>III.</b>	<b>Short-term liabilities</b>	<b>565.5</b>	<b>808.8</b>
1.	To related parties	58.8	59.7
a)	trade liabilities, maturing:	0.0	0.0
b)	other	58.8	59.7
2.	To other parties in which the company holds capital commitment	0.0	0.0
a)	trade liabilities, maturing:	0.0	0.0
b)	other	0.0	0.0
3.	To other parties	506.8	749.1
a)	credits and loans	310.9	585.0
b)	arising from issuance of debt securities	0.0	0.0
c)	other financial liabilities	0.0	0.0
d)	trade liabilities, maturing:	129.3	133.9
	- up to 12 months	129.3	133.9
	- 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	60.4	21.2
h)	payroll liabilities	1.4	8.7

Items		As of 30.09.2020	As of 30.09.2019
4.	i) other Special funds	4.8 0.0	0.2 0.0
<b>IV.</b>	<b>Accruals</b>	<b>33.2</b>	<b>36.4</b>
1.	Negative goodwill	0.0	0.0
2.	Other accruals	33.2	36.4
	- long-term	0.0	0.0
	- short-term	33.2	36.4
<b>Total Liabilities</b>		<b>1 810.8</b>	<b>2 366.2</b>

## 10.3 Profit and loss statement

Items		YTD 2020	Only IIIQ 2020	YTD 2019	Only IIIQ 2019
'000 Euro					
<b>A.</b>	<b>Net revenue from sales</b>	<b>679.2</b>	<b>209.0</b>	<b>794.1</b>	<b>249.1</b>
	from related parties	0.0	0.0	0.0	0.0
I.	Net revenue from sales of products	679.2	209.0	794.1	249.1
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>B.</b>	<b>Operating expenses</b>	<b>1 184.6</b>	<b>354.6</b>	<b>1 642.6</b>	<b>485.3</b>
I.	Amortisation and depreciation	429.1	140.9	447.3	138.9
II.	Consumption of materials and energy	5.2	1.0	13.6	3.1
III.	External services	482.5	132.5	664.7	186.8
IV.	Taxes and charges, including:	5.8	2.1	8.5	0.6
	- excise duty	0.0	0.0	0.0	0.0
V.	Payroll	225.7	66.7	434.9	133.5
VI.	Social security and other benefits, including:	23.9	8.4	56.0	17.2
	- retirement benefits	18.1	5.4	33.6	10.3
VII.	Other prime costs	12.3	3.0	17.7	5.0
VIII.	Value of goods and materials sold	0.0	0.0	0.0	0.0
<b>C.</b>	<b>Profit (loss) on sales (A - B)</b>	<b>-505.4</b>	<b>-145.6</b>	<b>-848.5</b>	<b>-236.1</b>
<b>D.</b>	<b>Other operating revenues</b>	<b>18.6</b>	<b>0.7</b>	<b>40.3</b>	<b>3.5</b>
I.	Gain on disposal of non-financial fixed assets	0.2	0.0	0.9	0.9
II.	Subsidies	0.0	0.0	0.0	0.0
III.	Other operating revenues	16.4	0.0	34.2	0.0
IV.	Other operating revenues	1.9	0.7	5.2	2.6
<b>E.</b>	<b>Other operating expenses</b>	<b>21.4</b>	<b>1.4</b>	<b>3.5</b>	<b>1.2</b>
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	21.4	1.4	3.5	1.2
<b>F.</b>	<b>Profit (loss) on operating activities (C+D-E)</b>	<b>-508.2</b>	<b>-146.3</b>	<b>-811.7</b>	<b>-233.8</b>
<b>G.</b>	<b>Financial revenues</b>	<b>2.6</b>	<b>2.6</b>	<b>4.1</b>	<b>0.7</b>

Items		YTD 2020	Only IIIQ 2020	YTD 2019	Only IIIQ 2019
I.	Dividend and profit sharing, including:	0.0	0.0	0.0	0.0
II.	Interest, including:	0.0	0.0	4.0	0.7
	- 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	2.6	2.6	0.1	0.0
<b>H.</b>	<b>Financial expenses</b>	<b>35.4</b>	<b>13.9</b>	<b>32.6</b>	<b>11.3</b>
I.	Interest, including:	32.0	10.8	32.1	10.8
	- 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	3.4	3.0	0.4	0.4
<b>I.</b>	<b>Gross profit (loss) (F+G-H)</b>	<b>-541.0</b>	<b>-157.6</b>	<b>-840.2</b>	<b>-244.4</b>
<b>J.</b>	<b>Income tax</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>K.</b>	<b>Other statutory reductions in profit (increases in loss)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>L.</b>	<b>Net profit (loss) (I-J-K)</b>	<b>-541.0</b>	<b>-157.6</b>	<b>-840.2</b>	<b>-244.4</b>

## 10.4 Cash flow statement

Items		YTD 2020	YTD 2019
'000 Euro			
<b>A.</b>	<b>A. Cash flow from operating activities - indirect method</b>		
<b>I.</b>	<b>I. Net profit (loss)</b>	<b>-541.0</b>	<b>-840.2</b>
<b>II.</b>	<b>II. Total adjustments</b>	<b>646.6</b>	<b>500.3</b>
	1. Amortisation and depreciation	429.1	447.3
	2. Profit (loss) from differences of exchange rates	0.0	0.0
	3. Interest and profit sharing (dividend)	30.9	6.6
	4. Profit (loss) on investment activities	-0.2	0.0
	5. Change in provisions	-5.9	13.6
	6. Changes in inventory	0.0	4.6
	7. Change in the balance of receivables	65.7	59.3
	8. Change in short-term liabilities excluding credits and loans	106.2	-6.4
	9. Change in prepayments and accruals	20.9	7.7
	10. Other adjustments	0.0	-32.4
<b>III.</b>	<b>III. Net cash flow from operating activities (I+/-II)</b>	<b>105.6</b>	<b>-339.9</b>
<b>B.</b>	<b>B. Cash flows from investment activities</b>	<b>0.0</b>	<b>0.0</b>
<b>I.</b>	<b>I. Inflows</b>	<b>0.2</b>	<b>4.6</b>
	1. Disposal of intangible and legal assets, tangible fixed assets	0.2	0.6
	2. Disposal of investments in real property and in intangible and legal assets	0.0	0.0
	3. From financial assets, including:	0.0	4.0
	a) in related parties	0.0	0.0
	b) in other parties	0.0	4.0

Items		YTD 2020	YTD 2019
	- disposal of financial assets	0.0	0.0
	- dividends and profit sharing	0.0	0.0
	- repayment of granted long-term loans	0.0	0.0
	- interest	0.0	4.0
4.	Other inflow from investment activities	0.0	0.0
<b>II.</b>	<b>II. Outflows</b>	<b>207.2</b>	<b>346.4</b>
1.	Purchase of intangible and legal assets, tangible fixed assets	207.2	346.4
2.	Investment in real property, intangible and legal assets	0.0	0.0
3.	For financial assets, including:	0.0	0.0
4.	Other outflows from investment activities	0.0	0.0
<b>III.</b>	<b>III. Net cash flows from investment activities (I-II)</b>	<b>-207.0</b>	<b>-341.7</b>
<b>C.</b>	<b>C. Cash flows from financial activities</b>	0.0	0.0
<b>I.</b>	<b>I. Inflows</b>	<b>69.7</b>	<b>0.0</b>
1.	Net inflows from issuance of shares and other capital instruments and from capital contributions	0.0	0.0
2.	Credits and loans	69.7	0.0
3.	Issuance of debt securities	0.0	0.0
4.	Other inflows from financial activities	0.0	0.0
<b>II.</b>	<b>II. Outflows</b>	<b>14.0</b>	<b>50.7</b>
1.	Purchase of own shares (stocks)	0.0	0.0
2.	Dividend and payments to stockholders	0.0	0.0
3.	Profit distribution liabilities other than profit distribution payments to stockholders	0.0	0.0
4.	Repayment of credits and loans	0.0	34.3
5.	Redemption of debt securities	0.0	0.0
6.	Payment of other financial liabilities	0.0	0.0
7.	Payment of liabilities arising from financial leases	0.0	0.0
8.	Interest	14.0	16.4
9.	Other outflows from financial activities	0.0	0.0
<b>III.</b>	<b>III. Net cash flow from financial activities (I-II)</b>	<b>55.7</b>	<b>-50.7</b>
<b>D.</b>	<b>D. Total net cash flows (A.III+/-B.III+/-C.III)</b>	<b>-45.7</b>	<b>-732.3</b>
<b>E.</b>	<b>E. Balance sheet change in cash, including:</b>	<b>-45.7</b>	<b>-732.3</b>
-	change in cash due to exchange differences	0.0	0.0
<b>F.</b>	<b>F. Cash opening balance</b>	<b>49.4</b>	<b>886.9</b>
<b>G.</b>	<b>G. Cash closing balance (F+/- D), including: *</b>	<b>3.7</b>	<b>154.6</b>
-	of limited disposability	0.0	0.0
	* excluding overdraft		

## 10.5 Statement of changes in equity

		'000 Euro	
Items		As of 30.09.2020	As of 30.09.2019
<b>I.</b>	<b>Opening balance of equity (OB)</b>	<b>1 369.0</b>	<b>2 326.9</b>
	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
<b>I.a.</b>	<b>Opening balance of equity (OB) after adjustments</b>	<b>1 369.0</b>	<b>2 326.9</b>
<b>1.</b>	<b>Opening balance of share capital</b>	<b>30.7</b>	<b>28.2</b>
	1.2. Closing balance of share capital	31.0	28.2
<b>2.</b>	<b>Opening balance of called up share capital</b>	<b>0.0</b>	<b>0.0</b>
	2.1. Changes in called up share capital	0.0	0.0
	2.2. Closing balance of called up share capital	0.0	0.0
<b>3.</b>	<b>Opening balance of own shares</b>	<b>0.0</b>	<b>0.0</b>
	3.1. Increase in own shares	0.0	0.0
	3.2. Closing balance of own shares	0.0	0.0
<b>4.</b>	<b>Opening balance of supplementary capital</b>	<b>4 136.9</b>	<b>4 136.0</b>
	4.1. Changes in supplementary capital	0.0	0.0
	4.2. Closing balance of supplementary capital	4 136.9	4 136.0
<b>5.</b>	<b>Opening balance of revaluation reserve</b>	<b>0.0</b>	<b>0.0</b>
	5.1. Changes in revaluation reserve	0.0	0.0
	5.2. Closing balance of revaluation reserve	0.0	0.0
<b>6.</b>	<b>Opening balance of other reserve capitals</b>	<b>0.0</b>	<b>0.0</b>
	6.1. Changes in other reserve capitals	0.0	0.0
	6.2. Closing balance of other reserve capitals	0.0	0.0
<b>7.</b>	<b>Opening balance of previous years' profit (loss)</b>	<b>-2 798.9</b>	<b>-1 837.4</b>
	7.1. Opening balance of previous years' profit	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	-2 798.9	-1 837.4
	7.5. Opening balance of previous years' loss after reconciliation to comparable data	-2 798.9	-1 837.4
	7.6. Closing balance of previous years' loss	-2 798.9	-1 837.4
	7.7. Closing balance of previous years' profit (loss)	-2 798.9	-1 837.4
<b>8.</b>	<b>Net result</b>	<b>-541.0</b>	<b>-840.2</b>
	a) net profit	0.0	0.0
	b) net loss	-541.0	-840.2
	c) write-offs on profit	0.0	0.0
<b>II.</b>	<b>Closing balance of equity (CB)</b>	<b>828.1</b>	<b>1 486.7</b>
<b>III.</b>	<b>Equity including proposed profit distribution (loss coverage)</b>	<b>828.1</b>	<b>1 486.7</b>

## 10.6 Additional information (3rd quarter of 2020)

Sales structure:

Items	'000 Euro	
	01.07.2020 - 30.09.2020	01.07.2019 - 30.09.2019
Revenue from sales of products	209.0	249.1
- in Poland	143.0	161.3
- Other countries	66.0	87.9

Investments:

Items	'000 Euro	
	01.07.2020 - 30.09.2020	01.07.2019 - 30.09.2019
R&D Investment Offset	-58,9	-114,0





## 10.7 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 revaluating 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.

Extinguished, expired or uncollectible (bad) debts lower the previous write-offs lower. If there were no write-offs for a given extinguished, expired or uncollectible (bad) debt, a write-off is made directly in other operating costs.

## **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**



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**Paweł Wyborski**

President of the Board



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**Michał Giergielewicz**

Member of the Board



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