



QuarticOn S.A.

# **QUARTERLY REPORT**

## **1st Quarter of 2023**

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# 1 Management Board's Commentary

## Ladies and Gentlemen,

The first quarter of 2023 was an ambivalent one. On the one hand, **with new sales at EUR 27.8k** and with the AI Fashion Stylist delivering strong results, there are reasons to be optimistic. On the other, online sales on the market were fairly average, and the churn rate went up, causing loss of potential profits. Clearly, there is still much work to be done.

Sales revenue in the first quarter of 2023 (EUR 219.4k) had a value similar to the last quarter of previous year (in the previous year, the decrease was almost 13% based on PLN amounts). Among other factors, this was due to the ongoing changes in the sales process introduced under the guidance of external experts. We discuss this subject in more detail in the Marketing section. What is important here to note, however, is that we have been thoroughly reviewing our actions, which allowed us to gain many valuable insights. By defining our strengths better, working on our weaknesses and effectively reaching clients, we have been slowly able to achieve desirable outcomes – in the first quarter of this year, we started business talks with a fairly large number of potential clients.

Our **AI Fashion Stylist** project is slowly becoming our most promising and exciting product, and our design team shares this excitement. While indeed partly attributable to the considerable popularity of AI solutions (ChatGPT being the most famous one), this is largely the effect of our experts' efforts. Seeing the initial outcomes of their work in a real-life environment was quite an experience for QuarticOn's team. In the first quarter, we performed a **test deployment of new AI algorithms** (made for AI Fashion Stylist app) for automated outfit generation at e-stores. We ran a series of tests to compare the new algorithms with the existing ones used in the recommendation system. Through the tests, we were able to **improve performance by almost 30 percent**. This had a considerable impact on driving sales for the store at which we ran the tests. Another step for us will be to develop this new AI technology for scaling, and to come up with an full concept of AI Fashion Stylist services for fashion stores.

Compared to the last year, QuarticOn **improved its EBITDA** (based on sales profit excluding the AI Fashion Stylist project) by EUR +41k. Still, it was slightly lower than in Q4 2022 – the best quarter of 2022. Nevertheless, we expect this year’s results to improve across the EBITDA and Net Result as well.

The first quarter is always about setting up a foundation to develop on throughout the rest of the year. And we laid such a foundation by adjusting our sales processes, scaling up deals and having the AI Fashion Stylist’ algorithms deliver the first “tangible” outcomes.

### 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 Financial results

With a 2.4 percent y/y increase in sales and with costs lower by EUR 35.7k, we were able to considerably drive up our EBITDA (based on sales profit excluding the AI Fashion Stylist project) to EUR -8k (over EUR 41k higher than in the corresponding period of 2022). The lower costs were mainly due to IT infrastructure optimisations and cost reductions. The resulting savings were more than enough to cover the slight increase in payroll costs.

In relation to Q4 2022, EBITDA dropped by EUR -6.3k. This is attributable to lower sales (EUR -4.2k) and slightly higher costs (EUR +2.1k).

In February, the stage of “industrial research” for the AI Fashion Stylist came to an end. From the beginning of March, we have been conducting development works that is mostly recognised as R&D accruals and as such no longer charges current costs. This is evident in the level of expenses recognised in the project costs – in Q1 2023, they were much lower compared to the previous quarter. However, to keep the expenditures comparable, we have also prepared a summary of expenses and expenditures which includes figures recognised both under direct costs and on an accrual basis (see the bottom row in “Operating costs” table).

The expenses incurred for the AI Fashion Stylist project amounted EUR 111.2k, less than in Q4 2022 (EUR 168.6k). This can be attributed to the completion of the industrial research stage and the resulting changes in the project team – personnel changes were necessary, since the next phase will require experts with other sets of qualifications and competencies.

### Selected data from Profit and loss statement

	'000 Euro				
Profit and loss statement	IQ 2022	IVQ 2022	IQ 2023	IQ 2023 vs IQ 2022	IQ 2023 vs IVQ 2022
Net revenue from sales	214.2	223.6	219.4	5.1	-4.2
Operating expenses excl. depreciation & amortization And “AI Fashion Stylist”	-263.0	-225.2	-227.3	35.7	-2.1
<b>EBITDA (based on result on sale, excluding “AI Fashion Stylist”)</b>	<b>-48.8</b>	<b>-1.6</b>	<b>-8.0</b>	<b>40.8</b>	<b>-6.3</b>
“AI Fashion Stylist” expenses	-64.1	-168.6	-111.2	-47.1	57.4
<b>EBITDA (based on result on sales)*</b>	<b>-112.9</b>	<b>-170.3</b>	<b>-119.2</b>	<b>-6.2</b>	<b>51.1</b>
EBIT (operating result)	-227.8	-137.8	-151.1	-76.7	-13.3
<b>Net result</b>	<b>-230.7</b>	<b>-139.8</b>	<b>-158.7</b>	<b>-72.0</b>	<b>-18.9</b>

\* EBITDA – calculated based on ‘result on sales’ for monthly and quarterly results and based on ‘result on operating activities’ for annual results

## Operating expenses

‘000 Euro

	IVQ 2022*	IQ 2023	IQ 2023 vs IVQ 2022
<b>Operating expenses excl. depreciation &amp; amort. and "AI Fashion Stylist" project</b>	<b>-225.2</b>	<b>-227.3</b>	<b>2.1</b>
Payroll, Social security and other benefit	-88.7	-85.1	-3.5
External services	-128.9	-132.3	3.4
Others	-7.6	-9.8	2.3
<b>Operating expenses of "AI Fashion Stylist" project</b>	<b>-168.6</b>	<b>-111.2</b>	<b>-57.4</b>
Payroll, Social security and other benefit *	-108.7	-73.7	-35.1
External services	-59.9	-37.5	-22.4
Others	0.0	0.0	0.0
<b>Amortisation and depreciation</b>	<b>-113.1</b>	<b>-115.9</b>	<b>2.8</b>
<b>Operating expenses (Item B in profit and loss account )</b>	<b>-506.9</b>	<b>-454.4</b>	<b>-52.5</b>
Total expenses (included in current costs) and expenditures for AI Fashion Stylist project	-168.6	-146.9	-21.8

\* including unused holiday provision in amount of EUR 9.6k

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

‘000 Euro

Balance sheet	As of 31.03.2023	As of 31.03.2022
Fixed assets	581.2	993.1
- including intangible and legal assets	578.5	990.0
Current assets	284.5	272.4
- including short-term investments (excl. overdraft)	7.6	40.6
<b>Total Assets</b>	<b>865.7</b>	<b>1 265.6</b>
Equity	-256.9	577.6
Liabilities and provisions for liabilities	1 122.6	688.0
- including short term liabilities	885.4	464.3
<b>Total Liabilities</b>	<b>865.7</b>	<b>1 265.6</b>

‘000 Euro

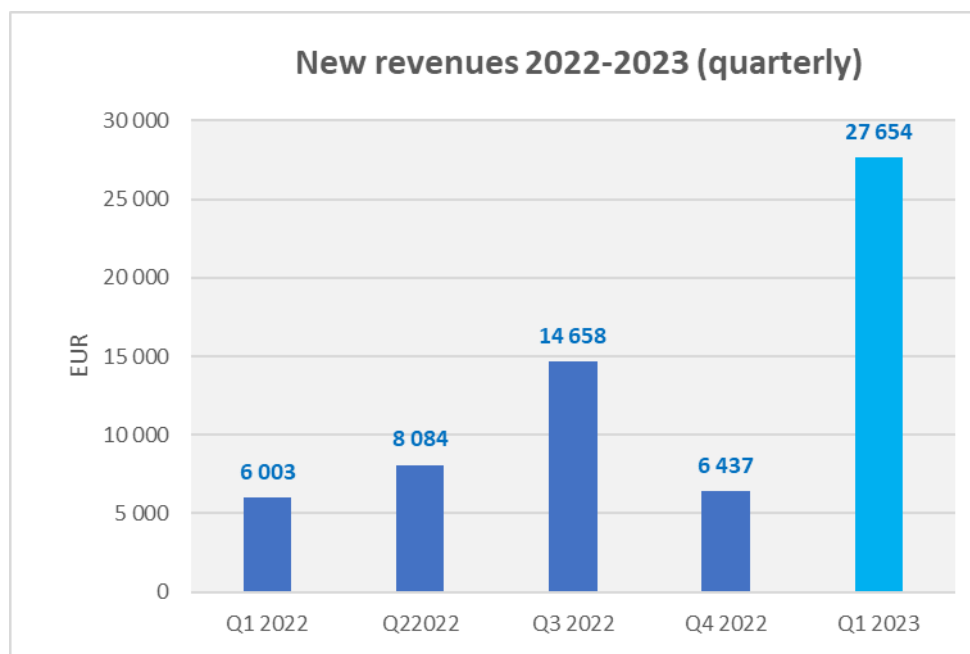
Cash Flow	Cum 2023	Cum 2022
Net profit (loss)	-158.7	-230.7
Net cash flow from operating activities	8.1	-135.4
Net cash flow from financial activities	-4.8	189.0
Cash closing balance	7.6	40.6

## 3 Key events in 1st quarter of 2023

### 3.1 Polish market (79%) and foreign markets (21%)

The general trend for the e-commerce market is for revenues to decrease in the first quarter relative to the fourth quarter of the previous year. This can be explained by the nature of the e-commerce market, which peaks in the last months of the year, mainly due to seasonal factors (Black Friday, Christmas, etc.).

We are moderately content with our Q1 2023 results – the sales level was slightly better than a year before and modestly lower compared to the previous quarter. We expected the strong sales to new clients (almost EUR 27.7k) to translate into higher revenues in Q1 2023, but with a higher churn rate (end of cooperation with several clients, including major one), this did not materialise. The new deals that are being signed have not yet to compensate for this underachievement.



As far as strategy is concerned, QuarticOn has been focusing its efforts mainly on the enterprise sector, consistent with the objectives outlined in the second half of 2022. The decision to follow this path of development came about through a consultation process with our partner Sellwisse and an internal analysis of our company's unique values. With the enterprise sector accounting for an increasing portion of our new sales, we may preliminarily conclude that these assumptions were correct.

Our plan for the next quarter is to focus on prospecting among enterprises, and the highly positive market feedback we have received so far emboldens this commitment. However, it takes an average of at least six months to secure an enterprise client. This is because such clients have complex organisational and decision-making structures. While the fashion market remains our priority, we continue our enterprise-oriented operations in other sectors.

## 3.2 Marketing and customer success

The first quarter of 2023 was marked by intensive efforts by the Marketing Team to build the foundations for a new sales and B2B marketing approach. These included the following areas:

### 1. Marketing & Communications

- creating a detailed buyer persona for marketing purposes by identifying the problems, challenges and objections in correlation with QuarticOn's unique values;
- drafting a plan for communicating with external audiences (social media);
- outlining the customer's purchasing process to create marketing funnels;
- outlining the marketing strategy for the next half year;
- outlining QuarticOn's unique AI Smart Search and AI Smart Search API assets that could be valuable to prospective clients

### 2. Sales Support Department

- creating prospecting communications based on the unique values for all roles within the buyer persona;
- drafting the template of a conceptual presentation for clients at the purchase closure stage;

The Marketing Team devoted a bulk of their efforts on the above-mentioned objectives because of the primary importance and priority we attach to them. Nevertheless, they were also able to complete several other minor tasks, such as launching a new "Pricing" page in three language versions and updating marketing and sales materials. The Marketing Team has also been maintaining regular communications with clients (through social media and our newsletters), posting blog updates and running the HelpCenter.

## 3.3 Subscriptions and churn<sup>1</sup>

In the first quarter of 2023, the Company generated sales thanks to **222** subscriptions (monthly average), with an average price of **EUR 284** per subscription (almost the same as in previous

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<sup>1</sup> Churn - indicator showing loss of revenues as a result of customers churn (as monthly average in the quarter)



quarter). The churn rate in the first quarter of 2023 was 3.8% and was higher than in previous quarters. This includes the effect of terminating cooperation with one larger client and several smaller ones. Losing customers (especially the larger ones) is always a challenge for the Company, but it is unavoidable in such a competitive market. It is worth noting that over the last 8 quarters we managed to keep the churn rate in check (below 2.6%). Newly signed contracts cover losses due to customer churn (in the medium term).

### 3.4 EU financing project “AI Fashion Stylist”



In Q1 2023, we finished the research phase and proceeded to development works, mainly involving the apps (B2B and B2C). Furthermore, we started working on our new offering of services based on the new AI algorithms. We started by running pilot deployments of the first services based on the new AI Fashion Stylist **algorithms** for fashion stores. **A pilot integration of the new algorithms** with the existing recommender system was carried out to measure how effective they are compared to the existing solution. Using the first algorithms developed for the AI Fashion Stylist solution, we created two new services – **automated outfit generation** (cross-selling strategies) and promotion of new collections on “virtual shelves” of online stores. The tests allowed us to significantly drive up sales generated by the recommender engine and to improve the turnover of new clothes. This is a very positive result meaning that through the new AI algorithms, we can build a new value proposition for clients and gain unique competitive advantages. The AI Fashion Stylist algorithms have already been trained using millions of images that show a great variety of outfits and (perhaps most importantly) **do not need any historical sales** data from individual stores. They are critical for handling new collections, and thanks to the unique technology, achieve top performance from the first minute they are launched. For reference, it takes about a month for other recommender systems now prevailing on the market to learn historical data from e-stores. Moreover, these systems are unable to correctly fit the products into outfits if a given assortment has not been sold yet in the store (not to mention the ability to follow style rules). All this dramatically reduces the effectiveness of traditional recommender engines for new collections.

Among other activities, in the coming months we will have our developers work on integrating the new algorithms with our existing solutions (recommender engine, SmartSearch engine, Marketing Automation). Furthermore, we will start preparing to roll out the vision of our offering of innovative AI Fashion Stylist services (available also through API) to fashion businesses.

## 4 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 first quarter of 2023 amounted to EUR 0.

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 Q1 2023 amounted to GBP 0. The company's liabilities and assets are £ 520.

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 May 15, 2023, it is as follows:

Shareholder	Number of stocks*	Share
Venture FIZ	1 249 300	49.5%
CBNC Capital Solutions Ltd.	180 000	7.1%
Paweł Wyborski	179 853	7.1%
Q Free Trading Limited	123 500	4.9%
ACATIS Investment KVG mbH	240 800	9.5%
Others **	548 847	21.8%
<b>Total</b>	<b>2 522 300</b>	<b>100.0%</b>

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

\*\* including key employees (ESOP)

## 6 Information on the number of persons employed

At the end of March 2023, the Company employed or cooperated with 24.7 FTE (counted on a full-time basis) including those having a contract of employment, contract of mandate or those with B2B contracts.

## 7 Forecasts of financial results

The company did not published forecasts of financial results for year 2023.



## 8 Definition and indicators explanation

Indicator*	Source	Method of calculation	Usefulness
EBITDA (based on profit on sales)	Accounting system	Profit on sales plus depreciation	This indicator is used by QuarticOn for 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 (based on 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)
Subscription	CRM and invoicing system	-	Contract for a single service on a single domain for example "recommendation engine for <a href="http://www.test.pl">www.test.pl</a> ". In reporting the total number of subscriptions is used.
Average Revenue Per Subscription (ARPS)	CRM and invoicing system	Total revenue (for the relevant period) from subscriptions / the number of subscriptions (in the relevant period)	This indicator shows the average value of one subscriptions (monthly) in the relevant period ("price for the product") while the number of subscriptions shows the "quantity of products sold".
New revenues (new sales)	CRM and invoicing system	Revenues from set-up fees, additional services, first month recurring revenues for new clients or new products	The indicator reflects the scale (in revenues) of acquiring new orders for the Company, both those related to implementations and recurring services; the higher the better; is susceptible to seasonality or external factors (e.g. long sales process with the largest customers)

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

# 9 Shortened financial statement

## 9.1 Introduction

### Basic information for the company

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

**Seat:** Warsaw, Poland

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

**Incorporation date** Notarial deed 13.05.2011

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.

**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

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

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 subparagraph 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 January 1st to March 31, 2023 and comparative data for the same period of the previous year. The balance sheet data is presented as at March 31, 2023, and the comparative data as at March 31, 2022.

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

Used exchange rates (based on National Bank of Poland rates):

- 1st Quarter of 2023: 1 EUR = 4.6755 PLN (zł),
- 1st Quarter of 2022: 1 EUR = 4.6525 PLN (zł),
- 4th Quarter of 2022: 1 EUR = 4.6899 PLN (zł),

## 9.2 Balance sheet

### Assets

'000 Euro

Items		As of 31.03.2023	As of 31.03.2022
<b>A.</b>	<b>Fixed assets</b>	<b>581.2</b>	<b>993.1</b>
<b>I.</b>	<b>Intangible and legal assets</b>	<b>578.5</b>	<b>990.0</b>
1.	R&D expenses	578.5	990.0
2.	Goodwill	0,0	0,0
3.	Other intangible assets	0,0	0,0
4.	Advances for intangible assets	0,0	0,0
<b>II.</b>	<b>Tangible fixed assets</b>	<b>0.7</b>	<b>1.0</b>
1.	Tangible fixed assets in use	0.8	1.0
	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	0.7	1.0
	d) means of transport	0.0	0.0
	e) other tangible fixed assets	0.0	0.0
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>1.1</b>
1.	Real property	0.0	0.0
2.	Intangible and legal assets	0.0	0.0

Items		As of 31.03.2023	As of 31.03.2022
3.	Long-term financial assets	1.1	1.1
	a) in related parties	1.1	1.1
	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>0.9</b>	<b>1.1</b>
1.	Deferred tax assets	0.9	1.1
2.	Other prepayments	0.0	0.0
<b>B.</b>	<b>Current assets</b>	<b>284.5</b>	<b>272.4</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>211.8</b>	<b>147.8</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	211.8	147.8
	a) trade receivables, maturing:	110.0	84.0
	- up to 12 months	110.0	84.0
	- over 12 months	0.0	0.0
	b) receivables from tax, subsidies, customs, social security and other benefits	67.2	32.3
	c) other	34.6	31.5
	d) claimed at court	0.0	0.0
<b>III.</b>	<b>Short-term investments</b>	<b>7.6</b>	<b>40.6</b>
1.	Short-term financial assets	7.6	40.6
	a) in related parties	0.0	0.0
	b) in other parties	0.0	0.0
	c) cash and other pecuniary assets	7.6	40.6
2.	Other short-term investments	0.0	0.0
<b>IV.</b>	<b>Short-term prepayments</b>	<b>65.1</b>	<b>84.1</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>865.7</b>	<b>1 265.6</b>

## Equity and liabilities

‘000 Euro

Items		As of 31.03.2023	As of 31.03.2022
<b>A.</b>	<b>EQUITY</b>	<b>-256.9</b>	<b>577.6</b>
<b>I.</b>	<b>Share capital</b>	<b>53.9</b>	<b>51.9</b>
<b>II.</b>	<b>Supplementary capital, including</b>	<b>4 854.1</b>	<b>4 668.7</b>
	- share (stock) premium	4 854.1	4 668.7
<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>64.4</b>	<b>284.8</b>
<b>V.</b>	<b>Profit (loss) from previous years</b>	<b>-5 070.7</b>	<b>-4 197.2</b>
<b>VI.</b>	<b>Nett profit (loss)</b>	<b>-158.7</b>	<b>-230.7</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>1 122.6</b>	<b>688.0</b>
<b>I.</b>	<b>Provisions for liabilities</b>	<b>117.4</b>	<b>101.4</b>
1.	Provision for deferred income tax	0.9	1.1
2.	Provision for retirement and similar benefits	21.9	12.6
	- long-term	0.0	0.0
	- short-term	21.9	12.6
3.	Other provisions	94.6	87.7
	- long-term	0.0	0.0
	- short-term	94.6	87.7
<b>II.</b>	<b>Long-term liabilities</b>	<b>0.0</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	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
<b>III.</b>	<b>Short-term liabilities</b>	<b>885.4</b>	<b>464.3</b>
1.	To related parties	1.1	1.1
	a) trade liabilities, maturing:	0.0	0.0
	b) other	1.1	1.1
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	884.4	463.2
	a) credits and loans	139.8	142.3
	b) arising from issuance of debt securities	0.0	0.0
	c) other financial liabilities	0.0	0.0
	d) trade liabilities, maturing:	542.1	232.5
	- up to 12 months	542.1	232.5
	- 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	122.8	33.6
	h) payroll liabilities	34.2	20.4



Items		As of 31.03.2023	As of 31.03.2022
	i) other	45.4	34.4
4.	Special funds	0.0	0.0
<b>IV.</b>	<b>Accruals</b>	<b>119.8</b>	<b>122.3</b>
1.	Negative goodwill	0.0	0.0
2.	Other accruals	119.8	122.3
	- long-term	0.0	0.0
	- short-term	119.8	122.3
<b>Total Liabilities</b>		<b>865.7</b>	<b>1 265.6</b>

## 9.3 Profit and loss statement

'000 Euro

Items		IQ 2023	IQ 2022
<b>A.</b>	<b>Net revenue from sales</b>	<b>219.4</b>	<b>214.2</b>
	from related parties	0.0	0.0
I.	Net revenue from sales of products	219.4	214.2
II.	Change in the balance of products (increase - positive value, decrease - negative value)	0.0	0.0
III.	Costs of manufacturing products for internal purposes	0.0	0.0
IV.	Net revenue from sales of goods and materials	0.0	0.0
<b>B.</b>	<b>Operating expenses</b>	<b>454.4</b>	<b>441.3</b>
I.	Amortisation and depreciation	115.9	114.2
II.	Consumption of materials and energy	2.5	1.7
III.	External services	169.8	178.7
IV.	Taxes and charges, including:	2.9	2.2
	- excise duty	0.0	0.0
V.	Payroll	132.7	123.7
VI.	Social security and other benefits, including:	26.2	17.6
	- retirement benefits	12.6	7.6
VII.	Other prime costs	4.5	3.2
VIII.	Value of goods and materials sold	0.0	0.0
<b>C.</b>	<b>Profit (loss) on sales (A - B)</b>	<b>-235.1</b>	<b>-227.1</b>
<b>D.</b>	<b>Other operating revenues</b>	<b>85.7</b>	<b>0.1</b>
I.	Gain on disposal of non-financial fixed assets	0.0	0.1
II.	Subsidies	85.7	0.0
III.	Revaluation of non-financial assets	0.0	0.0
IV.	Other operating revenues	0.0	0.0
<b>E.</b>	<b>Other operating expenses</b>	<b>1.7</b>	<b>0.8</b>
I.	Loss on disposal of non-financial fixed assets	0.0	0.0
II.	Revaluation of non-financial assets	0.0	0.0
III.	Other operating expenses	1.7	0.8
<b>F.</b>	<b>Profit (loss) on operating activities (C+D-E)</b>	<b>-151.1</b>	<b>-227.8</b>
<b>G.</b>	<b>Financial revenues</b>	<b>0.0</b>	<b>0.0</b>

Items		Only IQ 2023	Only IQ 2022
I.	Dividend and profit sharing, including:	0.0	0.0
II.	Interest, including:	0.0	0.0
	- from related parties	0.0	0.0
III.	Revenue from disposal of financial assets, including:	0.0	0.0
	- in related parties	0.0	0.0
IV.	Revaluation of financial assets	0.0	0.0
V.	Other	0.0	0.0
<b>H.</b>	<b>Financial expenses</b>	<b>7.6</b>	<b>2.9</b>
I.	Interest, including:	1.6	1.3
	- for related parties	0.0	0.0
II.	Loss on disposal of financial assets, including:	0.0	0.0
	- for related parties	0.0	0.0
III.	Revaluation of financial assets	0.0	0.0
IV.	Other	6.0	1.6
<b>I.</b>	<b>Gross profit (loss) (F+G-H)</b>	<b>-158.7</b>	<b>-230.7</b>
<b>J.</b>	<b>Income tax</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>L.</b>	<b>Net profit (loss) (I-J-K)</b>	<b>-158.7</b>	<b>-230.7</b>

## 9.4 Cash flow statement

'000 Euro

Items		IQ 2023	IQ 2022
<b>A.</b>	<b>A. Cash flow from operating activities - indirect method</b>		
<b>I.</b>	<b>I. Net profit (loss)</b>	<b>-139.8</b>	<b>-230.7</b>
<b>II.</b>	<b>II. Total adjustments</b>	<b>166.8</b>	<b>95.2</b>
1.	Amortisation and depreciation	115.9	114.2
2.	Profit (loss) from differences of exchange rates	0.0	0.0
3.	Interest and profit sharing (dividend)	5.1	2.1
4.	Profit (loss) on investment activities	0.0	-0.1
5.	Change in provisions	12.8	22.6
6.	Changes in inventory	0.0	0.0
7.	Change in the balance of receivables	-24.1	-7.3
8.	Change in short-term liabilities excluding credits and loans	59.9	-104.5
9.	Change in prepayments and accruals	-1.7	68.2
10.	Other adjustments	-1.0	0.0
<b>III.</b>	<b>III. Net cash flow from operating activities (I+/-II)</b>	<b>8.1</b>	<b>-135.4</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>0.0</b>	<b>0.1</b>
1.	Disposal of intangible and legal assets, tangible fixed assets	0.0	0.1
2.	Disposal of investments in real property and in intangible and legal assets	0.0	0.0
3.	From financial assets, including:	0.0	0.0
	a) in related parties	0.0	0.0

Items		IQ 2023	IQ 2022
	b) in other parties	0.0	0.0
	- 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	0.0
4.	Other inflow from investment activities	0.0	0.0
<b>II.</b>	<b>II. Outflows</b>	<b>36.7</b>	<b>28.8</b>
1.	Purchase of intangible and legal assets, tangible fixed assets	36.7	28.8
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>-36.7</b>	<b>-28.7</b>
<b>C.</b>	<b>C. Cash flows from financial activities</b>	0.0	0.0
<b>I.</b>	<b>I. Inflows</b>	<b>0.0</b>	<b>227.9</b>
1.	Net inflows from issuance of shares and other capital instruments and from capital contributions	0.0	220.2
2.	Credits and loans	0.0	7.7
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>4.8</b>	<b>38.9</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	0.5	37.6
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	4.3	1.3
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>-4.8</b>	<b>189.0</b>
<b>D.</b>	<b>D. Total net cash flows (A.III+/-B.III+/-C.III)</b>	<b>-33.5</b>	<b>24.8</b>
<b>E.</b>	<b>E. Balance sheet change in cash, including:</b>	<b>-33.5</b>	<b>24.8</b>
-	change in cash due to exchange differences	0.0	0.0
<b>F.</b>	<b>F. Cash opening balance</b>	<b>41.0</b>	<b>15.7</b>
<b>G.</b>	<b>G. Cash closing balance (F+/- D), including: *</b>	<b>7.6</b>	<b>40.6</b>
-	of limited disposability	1.5	0.6

## 9.5 Statement of changes in equity

‘000 Euro

Items		As of 31.03.2023	As of 31.03.2022
<b>I.</b>	<b>Opening balance of equity (OB)</b>	<b>-97.8</b>	<b>588.2</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>-97.8</b>	<b>588.2</b>
<b>1.</b>	<b>Opening balance of share capital</b>	<b>53.9</b>	<b>30.2</b>
	1.2. Closing balance of share capital	53.9	51.9
<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>4 854.1</b>	<b>4 025.2</b>
	4.1. Changes in supplementary capital	0.0	643.5
	4.2. Closing balance of supplementary capital	4 854.1	4 668.7
<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>64.8</b>	<b>730.0</b>
	6.1. Changes in other reserve capitals	-0.4	-445.2
	6.2. Closing balance of other reserve capitals	64.4	284.8
<b>7.</b>	<b>Opening balance of previous years' profit (loss)</b>	<b>-5 070.7</b>	<b>-4 197.2</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	-5 070.7	-4 197.2
	7.5. Opening balance of previous years' loss after reconciliation to comparable data	-5 070.7	-4 197.2
	7.6. Closing balance of previous years' loss	-5 070.7	-4 197.2
	7.7. Closing balance of previous years' profit (loss)	-5 070.7	-4 197.2
<b>8.</b>	<b>Net result</b>	<b>-158.7</b>	<b>-230.7</b>
	a) net profit	0.0	0.0
	b) net loss	-158.7	-230.7
	c) write-offs on profit	0.0	0.0
<b>II.</b>	<b>Closing balance of equity (CB)</b>	<b>-256.9</b>	<b>577.6</b>
<b>III.</b>	<b>Equity including proposed profit distribution (loss coverage)</b>	<b>-256.9</b>	<b>577.6</b>

## 9.6 Additional information (1<sup>st</sup> quarter of 2023)

Sales structure:

'000 Euro

Items	01.01.2023 - 31.03.2023	01.01.2022 - 31.03.2022
Revenue from sales of products	219.4	214.2
- in Poland	172.6	142.9
- Other countries	46.7	71.3

R&D expenditures (accruals):

The Company's capital expenditures in Q1 2023 were still directed to the development of the "AI Fashion Stylist" project. The first stage of Industrial Research was completed and the project started the stage of Development Works. The value of expenses incurred in the first quarter of 2023 (included directly in current costs) amounted to EUR 111.2k and the value of expenditures was EUR 35.6k (recognized as accruals). Total expenditure incurred in Q1 2023 for the AI Fashion Stylist project amounted to EUR 146.9k.



## 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 29<sup>th</sup> 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.

## **Management Board of QuarticOn S.A.**

**Paweł Wyborski**

President of the Board

**Michał Giergielewicz**

Member of the Board





**QuarticOn S.A.**



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