

# **QUARTERLY REPORT**

## **Q2 2016**

### **Wroclaw, 08/12/2016**

## THE MANAGEMENT BOARD'S LETTER

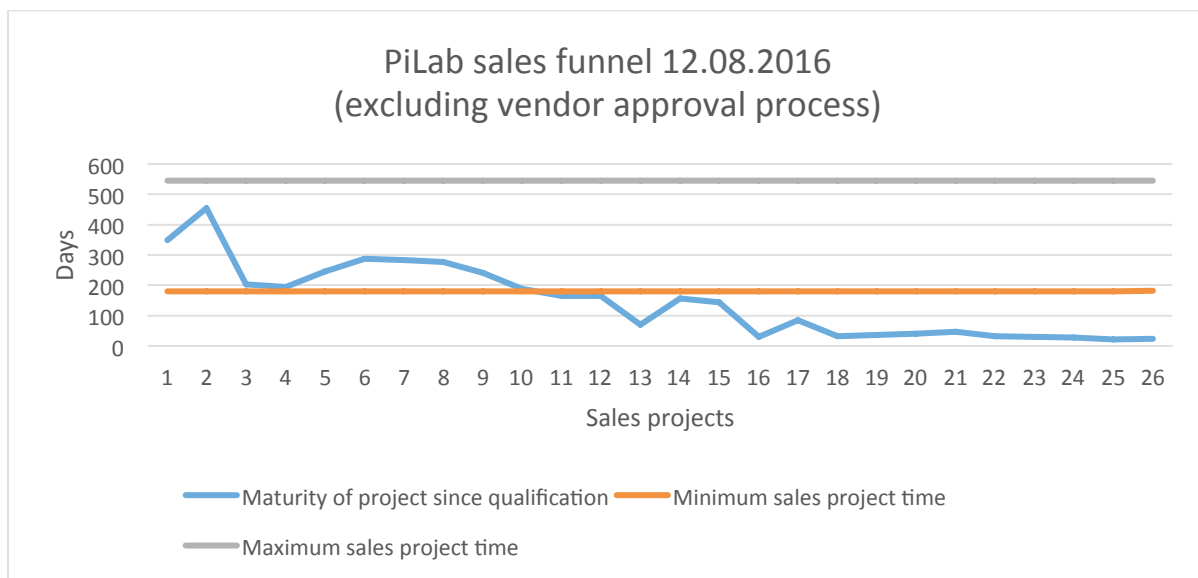
Dear Shareholders,

In the second quarter of 2016, we experienced an increasing scale of operations in Poland and, at the same time, a growth in activities in the USA.

Business operations in the USA require more and more engagement, which is visible in the growing amount of time our Polish team devotes to meetings and conferences in the United States as well as in our contractors' expectations referring to dedication of essential resources and formalization of organizational and legal structures for implementation of pilot beta projects. The outcome of these expectations is DataWalk, Inc., a joint stock company whose 100% of shares have been acquired by PiLab and where Gabor Gotthard, a former Chairman of PiLab, has been appointed Chief Executive Officer. A formal launch of the company in the USA is a relatively simple undertaking, whereas structuring legal relations between PiLab and its American subsidiary in the scope of licensing, financing, minimizing legal risks and preserving 100% of intellectual property rights in PiLab SA required significant efforts and work of advisors on both sides of the Ocean.

Fraud detection in the insurance area, which constitutes one of the PiLab system applications, has raised considerable interest among our prospects. Our actions have resulted in visible effects such as materials describing the scope of a [record pilot implementation](#) and an interesting [article by Denis Parker](#) in the Polish press. Both the materials and the article constitute only preliminaries to future publications on the results of the work of PiLab's team with domestic and international subjects from the insurance sector.

In Poland, the second quarter was marked by intensive work in the sales and the implementation departments due to numerous meetings with prospects as well as related pilot projects. The number of qualified projects run by the sales team is 26 at present. The majority of sales processes were launched less than 6 months ago, which, at the sales cycle in the period between 6 and 18 months from obtaining the status of a supplier, indicates that finalizing sales and formalizing contracts are only just beginning.



Source: Company.

The cycle indicated above does not include the process of supplier verification, which, unfortunately, may take months or quarters, especially in the banking sector where legal issues and regulations of compliance departments can withhold project, as it happened in one of the biggest Polish banks where pilot project had

*been launched and then had been frozen waiting for compliance approval for 4 months now. Such delays and dependence on the pace imposed by clients' procedures were the reasons why it was not until the first weeks of the third quarter that we were able to invoice revenue from projects finalized in May and June.*

*The fundamental value of PiLab's revolutionary technology has been proved by a prize awarded to its creator. Krystian Piećko, CTO at PiLab, has been appointed [MIT Innovator Under 35](#). What is especially interesting is the statement of reasons for this distinction provided by one of the members of the jury – a representative of BGŻ BNP Paribas Bank.*

*In regards to PiLab's intellectual property rights protection, it is worth noticing that a confirmation of an application for a temporary patent no. 62/327,668 has been issued by US Patent Office. This constitutes one of many strategic actions planned together with Wilson Sonsini Goodrich & Rosati office in the first and the second quarter of 2016 with a view to protecting PiLab's interests.*

*In conclusion, being aware of the challenges ahead of us, at the same time, we are satisfied that in 2014 we decided to invest in building a team of highly qualified specialists who, despite the summer holiday period, time zone and cultural differences as well as grueling tasks connected with working for the biggest multinational institutions, focus on building PiLab's value. The seemingly modest effects of the second quarter of 2016 are, in PiLab's management's opinion, going to bring about significant positive developments in the following periods.*

*We encourage you to take a look at information materials on our website and invite you to visit PiLab's headquarters in Wrocław.*

*With best regards,*



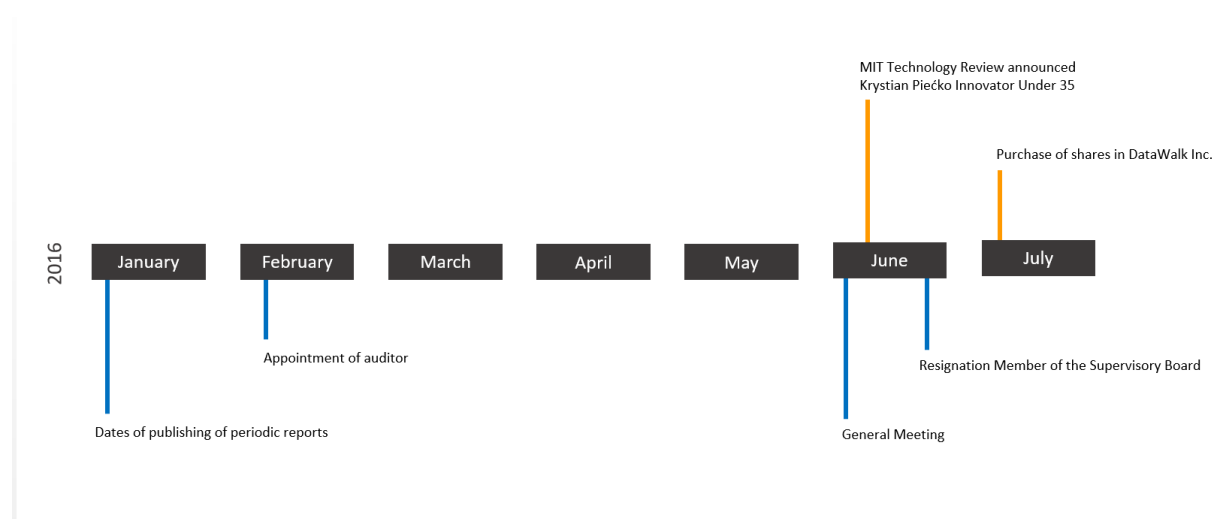
*Paweł Wieczyński  
CEO*

## 1. BASIC INFORMATION ABOUT PILAB SA

Company Name:	PiLab SA
Company Address:	ul. Rzeźnicza 32-33, 50-130 Wrocław
Phone:	+48 71 707 21 74
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www:	www.pilab.pl

Source: Company

## 2. TIMELINE



Source: Company

### 3. FINANCIAL DATA

#### Balance Sheet with comparative results

ASSETS	IIQ 2016 PLN	IIQ 2016 USD	IIQ 2016 EUR	IIQ 2015 PLN	IIQ 2015 USD	IIQ 2015 EUR
<b>A Fixed Assets</b>	<b>1 295 599,45</b>	<b>325 502,96</b>	<b>292 757,76</b>	<b>709 717,14</b>	<b>188 528,93</b>	<b>169 205,88</b>
I. Intangible assets	1 116 553,64	280 519,97	252 300,00	574 977,08	152 736,64	137 082,08
II. Tangible fixed assets	179 045,81	44 982,99	40 457,76	134 740,06	35 792,29	32 123,80
III. Long-term receivables	-	-	-	-	-	-
IV. Long-term investments	-	-	-	-	-	-
V. Long-term prepayments	-	-	-	-	-	-
<b>B Current Assets</b>	<b>19 563 177,11</b>	<b>4 915 000,66</b>	<b>4 420 557,48</b>	<b>6 402 439,38</b>	<b>1 700 740,97</b>	<b>1 526 425,56</b>
I. Inventory	-	-	-	-	-	-
II. Short-term receivables	2 314 592,52	581 512,08	523 012,66	997 004,36	264 843,77	237 698,92
III. Short-term investments	17 234 566,06	4 329 966,60	3 894 377,15	5 394 330,56	1 432 947,42	1 286 079,19
IV. Short-term prepayments	14 018,53	3 521,98	3 167,67	11 104,46	2 949,78	2 647,45
<b>TOTAL ASSETS</b>	<b>20 858 776,56</b>	<b>5 240 503,62</b>	<b>4 713 315,23</b>	<b>7 112 156,52</b>	<b>1 889 269,90</b>	<b>1 695 631,44</b>

LIABILITIES	IIQ 2016 PLN	IIQ 2016 USD	IIQ 2016 EUR	IIQ 2015 PLN	IIQ 2015 USD	IIQ 2015 EUR
<b>A Equity</b>	<b>20 058 399,36</b>	<b>5 039 418,98</b>	<b>4 532 459,46</b>	<b>6 632 231,22</b>	<b>1 761 782,77</b>	<b>1 581 210,95</b>
I. Share capital	300 550,00	75 509,38	67 913,23	253 550,00	67 352,90	60 449,65
II. Called up share capital (negative value)	-	-	-	-	-	-
III. Own shares (negative value)	-	-	-	-	-	-
IV. Supplementary capital	32 988 203,98	8 287 868,75	7 454 119,08	12 235 888,98	3 250 335,76	2 917 196,50
V. Revaluation reserve	-	-	-	-	-	-
VI. Other reserve capitals	-	-	-	-	-	-
VII. Previous years' profit (loss)	-9 538 930,94	-2 396 535,67	-2 155 447,05	-2 957 147,71	-785 535,32	-705 022,82
VIII. Net profit (loss)	-3 691 423,68	-927 423,48	-834 125,79	-2 900 060,05	-770 370,58	-691 412,37
IX. Write-off on net profit during the financial year (negative value)	-	-	-	-	-	-
<b>B Liabilities and Provisions For Liabilities</b>	<b>800 377,20</b>	<b>201 084,64</b>	<b>180 855,77</b>	<b>479 925,30</b>	<b>127 487,13</b>	<b>114 420,49</b>
I. Provisions for liabilities	-	-	-	-	-	-
II. Long-term liabilities	20 479,78	5 145,29	4 627,68	65 359,81	17 362,15	15 582,64
III. Short-term liabilities	779 897,42	195 939,36	176 228,09	414 565,49	110 124,98	98 837,85
IV. Accruals & Deferred Income	-	-	-	-	-	-
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>20 858 776,56</b>	<b>5 240 503,62</b>	<b>4 713 315,23</b>	<b>7 112 156,52</b>	<b>1 889 269,90</b>	<b>1 695 631,44</b>

Source: Company

PiLab Spółka Akcyjna

ul. Rzeźnicza 32-33, 50-130 Wrocław | KRS: 0000405409, NIP: 894-303-43-18, REGON: 021737247 | Sąd rejestrowy: Sąd Rejonowy dla Wrocławia-Fabrycznej we Wrocławiu | VI Wydział Gospodarczy KRS | Kapitał zakładowy: 300.550,00 zł w całości wpłacony

## Profit and loss account with comparative results

PROFIT AND LOSS ACCOUNT	IIQ 2016	IIQ 2016	IIQ 2016	IIQ 2015	IIQ 2015	IIQ 2015
	PLN	USD	EUR	PLN	USD	EUR
<b>A Revenues from sales</b>	<b>22 942,70</b>	<b>5 924,06</b>	<b>5 247,04</b>	<b>84 037,88</b>	<b>22 722,15</b>	<b>20 552,69</b>
I. Sales of products and services	22 942,70	5 924,06	5 247,04	84 037,88	22 722,15	20 552,69
II. Change in work in progress	-	-	-	-	-	-
III. Intercompany sales	-	-	-	-	-	-
IV. Sales of goods and materials	-	-	-	-	-	-
<b>B Operating costs</b>	<b>2 574 487,13</b>	<b>664 761,19</b>	<b>588 790,65</b>	<b>1 560 226,39</b>	<b>421 853,83</b>	<b>381 576,07</b>
I. Depreciation	47 594,76	12 289,50	10 885,02	71 429,75	19 313,17	17 469,18
II. Materials & energy	78 061,68	20 156,39	17 852,87	60 849,44	16 452,46	14 881,62
III. Cost of services	1 721 517,18	444 514,87	393 714,62	865 542,87	234 025,38	211 681,10
IV. Taxes and fees	2 436,01	629,00	557,12	3 353,80	906,80	820,22
V. Salaries	552 052,47	142 546,08	126 255,57	390 703,57	105 638,39	95 552,24
VI. Benefits	89 509,69	23 112,40	20 471,06	73 366,18	19 836,74	17 942,77
VII. Other costs	83 315,34	21 512,95	19 054,39	94 980,78	25 680,89	23 228,93
VIII. Cost of goods and materials sold	-	-	-	-	-	-
<b>C Profit/Loss on sales (A-B)</b>	<b>-2 551 544,43</b>	<b>-658 837,13</b>	<b>-583 543,61</b>	<b>-1 476 188,51</b>	<b>-399 131,68</b>	<b>-361 023,38</b>
<b>D Other operating incomes</b>	<b>0,29</b>	<b>0,07</b>	<b>0,07</b>	<b>23 425,57</b>	<b>6 333,80</b>	<b>5 729,06</b>
I. Profit on sale of fixed assets	-	-	-	-	-	-
II. Subsidies	-	-	-	23 424,92	6 333,63	5 728,91
III. Other operating incomes	0,29	0,07	0,07	0,65	0,18	0,16
<b>E Other operating costs</b>	<b>9 655,37</b>	<b>2 493,12</b>	<b>2 208,20</b>	<b>29 655,30</b>	<b>8 018,20</b>	<b>7 252,64</b>
I. Loss on sale of fixed assets	-	-	-	-	-	-
II. Actualization of fixed assets	-	-	-	-	-	-
III. Other operating costs	9 655,37	2 493,12	2 208,20	29 655,30	8 018,20	7 252,64
<b>F Profit/Loss on activity (C + D - E)</b>	<b>-2 561 199,51</b>	<b>-661 330,18</b>	<b>-585 751,75</b>	<b>-1 482 418,24</b>	<b>-400 816,07</b>	<b>-362 546,95</b>
<b>G Financial incomes</b>	<b>113 661,90</b>	<b>29 348,77</b>	<b>25 994,72</b>	<b>3 262,83</b>	<b>882,20</b>	<b>797,97</b>
I. Dividends	-	-	-	-	-	-
II. Interest incomes	97 292,55	25 122,02	22 251,01	3 262,83	882,20	797,97
III. Profit on sold investments	-	-	-	-	-	-
IV. Actualization of investments	16 369,35	4 226,75	3 743,70	-	-	-
V. Other	-	-	-	-	-	-
<b>H Financial costs</b>	<b>49 414,69</b>	<b>12 759,42</b>	<b>11 301,24</b>	<b>9 582,20</b>	<b>2 590,83</b>	<b>2 343,47</b>
I. Interest expenses	21 912,42	5 658,03	5 011,42	4 987,08	1 348,41	1 219,66
II. Loss on sold investments	-	-	-	-	-	-
III. Actualization of investments	-	-	-	-	-	-
IV. Other	27 502,27	7 101,39	6 289,83	4 595,12	1 242,43	1 123,80

I.	Profit/Loss on total activity (F + G - H)	-2 496 952,30	-644 740,83	-571 058,27	-1 488 737,61	-402 524,70	-364 092,45
J	Result on extraordinary incidents (J.I. - J.II.)	-	-	-	-	-	-
I.	Extraordinary gains	-	-	-	-	-	-
II.	Extraordinary losses	-	-	-	-	-	-
K	Gross Profit/Loss (I +/- J)	-2 496 952,30	-644 740,83	-571 058,27	-1 488 737,61	-402 524,70	-364 092,45
L	Income tax	10 701,00	2 763,12	2 447,34	23 777,00	6 428,82	5 815,01
M	Other statutory appropriations of the profit	-	-	-	-	-	-
N	Net Profit/Loss (K - L - M)	-2 507 653,30	-647 503,95	-573 505,61	-1 512 514,61	-408 953,52	-369 907,46

Source: Company

### Cash flow with comparative results

CASH FLOW	IIQ 2016	IIQ 2016	IIQ 2016	IIQ 2015	IIQ 2015	IIQ 2015
	PLN	USD	EUR	PLN	USD	EUR
<b>A. Cash flows from operating activities</b>						
I. Net profit (loss)	-2 507 653,30	-647 503,95	-573 505,61	-1 512 514,61	-408 953,52	-369 907,46
II. Total adjustments	338 641,68	87 441,05	77 448,07	-61 996,24	-16 762,54	-15 162,08
III. Net cash flows from operating activities (I +/- II)	-2 169 011,62	-560 062,91	-496 057,55	-1 574 510,85	-425 716,06	-385 069,54
<b>B. Cash flows from investment activities</b>						
I. Inflows	-	-	-	-	-	-
II. Outflows	557 790,23	144 027,64	127 567,81	126 375,00	34 169,26	30 906,85
III. Net cash flows from investment activities (I-II)	-557 790,23	-144 027,64	-127 567,81	-126 375,00	-34 169,26	-30 906,85
<b>C. Cash flows from financial activities</b>						
I. Inflows	2 544,82	657,10	582,01	6 022 386,00	1 628 332,03	1 472 862,14
II. Outflows	14 942,12	3 858,22	3 417,29	21 225,02	5 738,82	5 190,89
III. Net cash flows from financial activities (I-II)	-12 397,30	-3 201,12	-2 835,29	6 001 160,98	1 622 593,21	1 467 671,25
D. Total net cash flows (A.III. +/- B.III +/- C.III)	-2 739 199,15	-707 291,66	-626 460,64	4 300 275,13	1 162 707,89	1 051 694,86
E. Balance sheet change in cash, including:	-2 739 199,15	-707 291,66	-626 460,64	4 300 275,13	1 162 707,89	1 051 694,86
F. Cash opening balance	17 393 127,57	4 491 098,84	3 977 845,07	1 094 055,43	295 810,58	267 567,18
G. Closing balance of cash (F+/-D), including:	14 653 928,42	3 783 807,17	3 351 384,43	5 394 330,56	1 458 518,47	1 319 262,04

Source: Company

### Statement of changes in share equity (funds) with comparative results

Statement of changes in share equity (funds)	IIQ2016		IIQ2015		IIQ2015	
	PLN	USD	EUR	PLN	USD	EUR
I. Opening balance of equity	22 509 986,22	5 812 328,60	5 148 081,47	2 122 359,83	573 843,40	519 053,98
I.a. Opening balance of equity after adjustments	22 509 986,22	5 812 328,60	5 148 081,47	2 122 359,83	573 843,40	519 053,98
II. Closing balance of equity	20 058 399,36	5 179 301,63	4 587 398,37	6 632 231,22	1 793 221,91	1 622 008,66
III. Equity including proposed profit distribution (loss coverage)	20 058 399,36	5 179 301,63	4 587 398,37	6 632 231,22	1 793 221,91	1 622 008,66

Source: Company

#### 4. THE MANAGEMENT BOARD’S COMMENTS ON FACTORS AND EVENTS THAT AFFECT THE ACHIEVED FINANCIAL RESULTS

PiLab Team has been focused on building the sales funnel and processing the pilot implementations in Europe, simultaneously market testing different use-cases in the U.S. Currently the biggest marketing development in the U.S. is observed for the [Integrated Data Hub](#) use-case, which seems to address important horizontal use-cases. As to European sales, several projects have been executed resulting in quantifiable ROI, with example business case of [4mats](#). Two other business cases deriving from production usage of DataWalk system in banking and insurance companies are now being evaluated. Due to delay in formal processing of the agreements with 2 customers, all of the significant Q2 revenue has been accounted in first half of Q3.

#### 5. NOTES TO FINANCIAL DATA

The following exchange rates were applied:

EUR:

from	to	for Balance Sheet statement calculations	for profit and loss account	for cash flow
31.03.2016	30.06.2016	4.1944	4.0889	4.0889
31.03.2015	30.06.2015	4.4255	4.3725	4.3725

Source: NBP

USD:

from	to	for Balance Sheet statement calculations	for profit and loss account	for cash flow
31.03.2016	30.06.2016	3.7645	3.6985	3.6985
31.03.2015	30.06.2015	3.9803	3.8728	3.8728

Source: NBP

Balance Sheet applicable exchange rate represents the exchange rate as of the last day of the month ending the relevant period. Profit and loss account and Cash flow exchange rate represents the average of exchange rates effective on the last day of each month within the relevant period.

PiLab Spółka Akcyjna

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