

**QUARTERLY REPORT
Q4 2016
Wroclaw, 02/13/2017**

THE MANAGEMENT BOARD'S LETTER

Dear Shareholders,

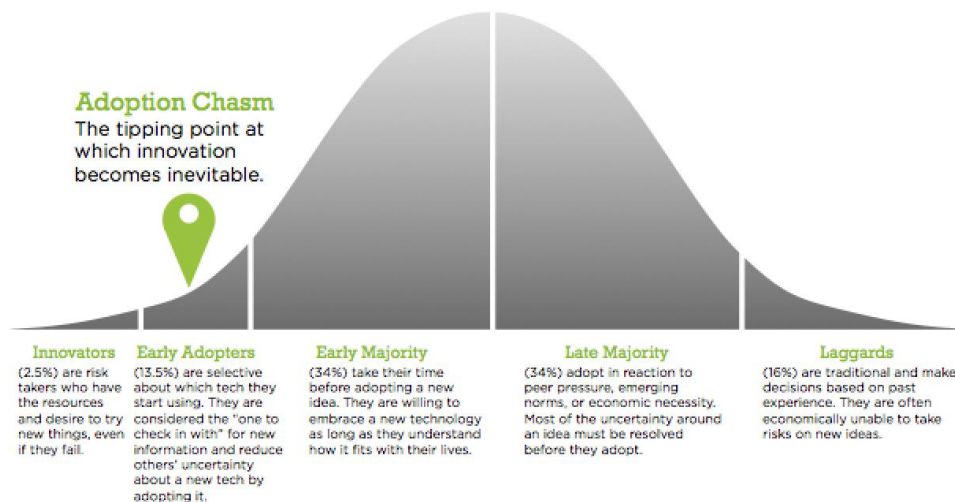
We invite you to learn about the summary of PiLab's activity in IVQ 2016. The last three months of the already closed year established themselves as a period of intense activities in the areas of sales and system implementations, numerous parallel projects resulting from groundwork on building a sales funnel and acquiring pilot commercial implementations.

In the cover letter to the report in IQ2016, we informed about a launch of a special business offer aimed to speed up in the following quarters the time of the introduction of DataWalk platform in the environments of the first customers (trend-setters) in selected sectors. Thanks to this approach, within 12 months we managed to implement interesting projects in two sectors new to the Company: insurance and public administration at a central level.

For example, the intensive, six-month long talks with one of the biggest insurance companies in Poland that started at the end of 2015 have led to an accelerated pilot implementation which constituted a breakthrough in terms of the positioning of PiLab's solutions in the sector. The effects of a 10-day project in the area of fraud detection were being verified in the field for the next 3 months and resulted in a very interesting business case. The results turned out to be so spectacular that another four companies negotiated a proof-of-concept engagement, one of which has already been finished, the other two are ongoing, and one is about to begin. The finalized project mentioned above was also implemented in 10 days; we managed to detect and verify so-called "doubtful claims" of about 1 million PLN value, despite narrowing the number of verified cases to only the top 5% of DataWalk system indications.

In the insurance sector, we are during sales processes within fast track - accelerated procedure. We are making efforts to convert the above-mentioned projects into the first production implementations despite financial and organizational challenges as well as those in the fields of culture and infrastructure, not to mention the necessary changes in the schedule of the work of customers' IT departments. It should be noted that contrary to the first pilot implementations, three of the proof-of-concept projects described above were based on commercial contracts. To sum up, the insurance market, as seen in the case of its leaders, looks very promising. The openness of another financial institutions to PiLab's solutions, the willingness to begin cooperation under an accelerated procedure, five quarters of work and learning interspersed with numerous successes and mutual efforts to start production implementations confirm the value we bring to the businesses of customers.

Analogically, in view of the history of our work in the bank and public administration sectors, we can assume that the first 1-3 enterprise-class customers in a new sector are won within 1.5-2 years. The innovators, according to the technology adoption curve (see the chart below) account for only several percent of the market, whereas the conversion of pilot projects into the production usage of DataWalk system in this group of customers will result in unlocking a much bigger part of the market, where we also anticipate sales cycles counted in 4-8 quarters, dependent on synchronization with a customer's budget cycle and their internal plans of IT systems development.



Reference: Kayfabe.com

On the basis of the sequence of stages and the duration of processes connected with introduction of a new product to market, we can refer to the expectations and the progress of work in the USA. At the moment, we are verifying several interesting applications of our technology in America, which is analogous to what we did in Poland in 2014. It is worth mentioning that the results we have had in Poland and the awareness of the possible application areas of the DataWalk platform are not only carefully examined by potential customers overseas, but also inspire us to begin discussions with new types of customers. Moreover, the domestic projects for financial institutions that belong to international holdings will constitute important references and benchmarks.

As in the concept of the flywheel effect, in the first 9 months, the PiLab team was making a titanic effort introducing a new solution to chosen market sectors, a solution that questions familiar practices and highlights ineffectiveness in solving problems at the interface of business and analytical needs of large institutions. We were analyzing the results of this work on the basis of the statistics of a sales funnel, the effects at our customers' and the enthusiasm towards our technology. When the flywheel budged at the turn of the third and the fourth quarter, its energy triggered a peculiar oversupply. Should we take into account the lengths of sales cycles and numerous purchasing-related risks that are beyond our control, we can anticipate another period of grueling efforts to make the flywheel go even faster. One example of such undertakings is the initiative of the Ministry of Development where PiLab opened a cycle of meetings: [Polish technologies for Polish champions and administration](#).

As a result of scaled operations, we are urgently searching for 1 or 2 salesmen experienced in the areas of analytical systems and a big-data technology as well as 1 field architect, who will be responsible for planning the architecture of implementations in Poland and, most importantly, examining already visible production effects of our systems, building and describing business cases worked out with customers and cooperating with PiLab's CTO within the scope of the directions of the technology development.

Each recruitment is conducted carefully according to a tested methodology – the strength of the PiLab team lies in the choice of the best specialists and despite many candidates interested in working with us, we select only top talents ready for long-term commitment.

In the financial aspect, the Company owns funds to secure its activity throughout 2017 and a part of the following period. We expect this buffer to increase with reference to growing sales in Poland.

In conclusion, we would like to thank you for the trust you have placed in us and ask for further support. We encourage you to be up to date with stock announcements and hope for the effects of our work to become reflected in prestigious brands in our portfolio of customers – trendsetters.

We also ask for recommendations concerning talented and experienced people, candidates to the sales department as well as for the position of the field architect, via e-mail: praca@pilab.pl

Yours faithfully,



Paweł Wieczyński
CEO

1. BASIC INFORMATION

Company Name:	PiLab SA
Company Address:	ul. Rzeźnicza 32-33, 50-130 Wrocław
Phone:	+48 71 707 21 74
Fax:	+48 71 707 22 73
E-mail:	biuro@pilab.pl
www:	www.pilab.pl

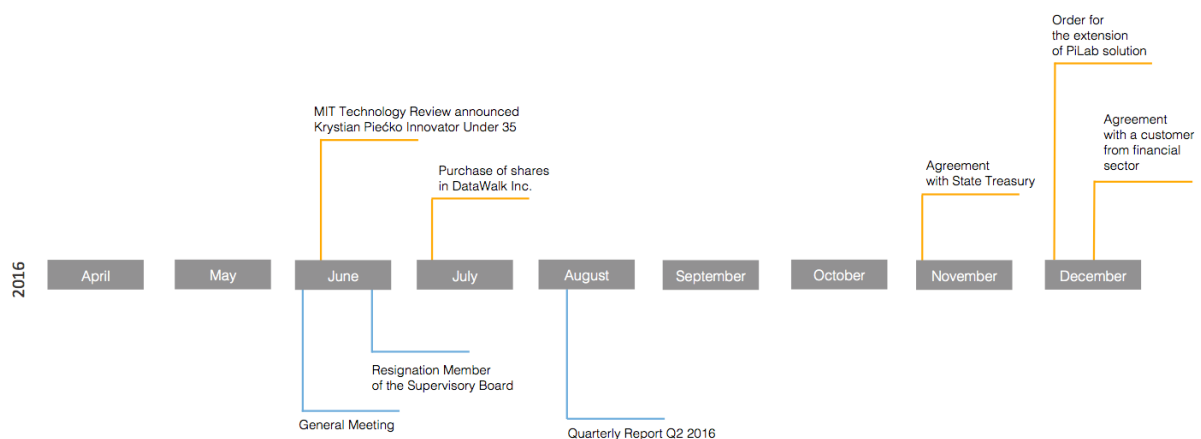
Source: Company

DataWalk Inc. (US Subsidiary)

Company Name:	DataWalk Inc.
Company Address:	1209 Orange Street, Wilmington, Delaware 19801
E-mail:	info@datawalk.com
www:	www.datawalk.com

Source: Company

2. TIMELINE



Source: Company

3. FINANCIAL DATA

Balance Sheet with comparative results

ASSETS	IVQ 2016 PLN	IVQ 2016 USD	IVQ 2016 EUR	IVQ 2015 PLN	IVQ 2015 USD	IVQ 2015 EUR
A Fixed Assets	2 085 160,20	498 925,71	471 329,16	860 763,28	220 646,30	201 985,99
I. Intangible assets	1 514 153,83	362 298,43	342 259,00	669 678,45	171 664,01	157 146,18
II. Tangible fixed assets	166 075,55	39 737,65	37 539,68	167 111,83	42 837,10	39 214,32
III. Long-term receivables	-	-	-	-	-	-
IV. Long-term investments	404 930,82	96 889,63	91 530,47	-	-	-
V. Long-term prepayments	-	-	-	23 973,00	6 145,19	5 625,48
B Current Assets	15 314 911,58	3 664 468,11	3 461 779,29	23 671 943,28	6 068 017,55	5 554 838,27
I. Inventory	-	-	-	-	-	-
II. Short-term receivables	2 478 022,01	592 927,53	560 131,56	1 472 145,23	377 366,70	345 452,36
III. Short-term investments	12 725 074,08	3 044 785,99	2 876 372,98	22 172 036,92	5 683 534,62	5 202 871,51
IV. Short-term prepayments	111 815,49	26 754,60	25 274,75	27 761,13	7 116,23	6 514,40
TOTAL ASSETS	17 400 071,78	4 163 393,82	3 933 108,45	24 532 706,56	6 288 663,85	5 756 824,25

LIABILITIES	IVQ 2016 PLN	IVQ 2016 USD	IVQ 2016 EUR	IVQ 2015 PLN	IVQ 2015 USD	IVQ 2015 EUR
A Equity	16 514 047,76	3 951 390,85	3 732 831,77	23 749 823,04	6 087 981,09	5 573 113,47
I. Share capital	300 550,00	71 913,96	67 936,26	300 550,00	77 042,37	70 526,81
II. Called up share capital (negative value)	-	-	-	-	-	-
III. Own shares (negative value)	-	-	-	-	-	-
IV. Supplementary capital	32 988 203,98	7 893 236,66	7 456 646,47	32 988 203,98	8 456 128,78	7 740 984,16
V. Revaluation reserve	-	-	-	-	-	-
VI. Other reserve capitals	-	-	-	-	-	-
VII. Previous years' profit (loss)	-9 538 930,94	-2 282 423,12	-2 156 177,88	-2 957 147,71	-758 029,20	-693 921,79
VIII. Net profit (loss)	-7 235 775,28	-1 731 336,65	-1 635 573,07	-6 581 783,23	-1 687 160,86	-1 544 475,71
IX. Write-off on net profit during the financial year (negative value)	-	-	-	-	-	-
B Liabilities and Provisions For Liabilities	886 024,02	212 002,97	200 276,68	782 883,52	200 682,76	183 710,79
I. Provisions for liabilities	-	-	-	23 772,00	6 093,67	5 578,32
II. Long-term liabilities	18 867,66	4 514,55	4 264,84	20 479,78	5 249,74	4 805,77
III. Short-term liabilities	867 156,36	207 488,42	196 011,84	738 631,74	189 339,35	173 326,70
IV. Accruals & Deferred Income	-	-	-	-	-	-
TOTAL EQUITY & LIABILITIES	17 400 071,78	4 163 393,82	3 933 108,45	24 532 706,56	6 288 663,85	5 756 824,25

Source: Company

Profit and loss account with comparative results

PROFIT AND LOSS ACCOUNT	IVQ2016	IVQ2016	IVQ2016	IVQ2015	IVQ2015	IVQ2015
	PLN	USD	EUR	PLN	USD	EUR
A Revenues from sales	1 004 234,51	247 506,90	229 460,64	428 152,34	109 994,18	100 448,65
I. Sales of products and services	1 004 234,51	247 506,90	229 460,64	428 152,34	109 994,18	100 448,65
II. Change in work in progress	-	-	-	-	-	-
III. Intercompany sales	-	-	-	-	-	-
IV. Sales of goods and materials	-	-	-	-	-	-
B Operating costs	2 951 767,50	727 502,22	674 458,47	2 550 684,23	655 281,75	598 415,03
I. Depreciation	49 646,61	12 236,06	11 343,91	31 479,21	8 087,14	7 385,33
II. Materials & energy	42 831,82	10 556,47	9 786,77	175 486,18	45 083,15	41 170,74
III. Cost of services	2 039 316,29	502 616,53	465 969,68	1 522 715,67	391 192,21	357 243,73
IV. Taxes and fees	8 828,97	2 176,02	2 017,36	98,00	25,18	22,99
V. Salaries	593 666,34	146 316,94	135 648,66	524 561,37	134 762,07	123 067,14
VI. Benefits	102 466,29	25 254,18	23 412,84	73 799,56	18 959,42	17 314,09
VII. Other costs	115 011,18	28 346,03	26 279,26	222 544,24	57 172,57	52 211,02
VIII. Cost of goods and materials sold	-	-	-	-	-	-
C Profit/Loss on sales (A-B)	-1 947 532,99	-479 995,31	-444 997,83	-2 122 531,89	-545 287,58	-497 966,38
D Other operating incomes	25 203,25	6 211,67	5 758,77	1 215,90	312,37	285,26
I. Profit on sale of fixed assets	25 203,25	6 211,67	5 758,77	1 211,37	311,21	284,20
II. Subsidies	-	-	-	-	-	-
III. Other operating incomes	-	-	-	4,53	1,16	1,06
E Other operating costs	6 368,02	1 569,48	1 455,05	6 377,57	1 638,43	1 496,24
I. Loss on sale of fixed assets	-	-	-	-	-	-
II. Actualization of fixed assets	-	-	-	-	-	-
III. Other operating costs	6 368,02	1 569,48	1 455,05	6 377,57	1 638,43	1 496,24
F Profit/Loss on activity (C + D - E)	-1 928 697,76	-475 353,12	-440 694,11	-2 127 693,56	-546 613,63	-499 177,36
G Financial incomes	45 636,96	11 247,83	10 427,73	134 519,80	34 558,72	31 559,64
I. Dividends	-	-	-	-	-	-
II. Interest incomes	35 325,31	8 706,39	8 071,59	132 223,47	33 968,78	31 020,90
III. Profit on sold investments	-	-	-	-	-	-
IV. Actualization of investments	-	-	-	519,73	133,52	121,93
V. Other	10 311,65	2 541,44	2 356,14	1 776,60	456,42	416,81
H Financial costs	262,51	64,70	59,98	2 723,48	699,67	638,95
I. Interest expenses	-	-	-	2 723,48	699,67	638,95
II. Loss on sold investments	-	-	-	-	-	-
III. Actualization of investments	262,51	64,70	59,98	-	-	-
IV. Other	-	-	-	-	-	-

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

I.	Profit/Loss on total activity (F + G - H)	-1 883 323,31	-464 169,99	-430 326,36	-1 995 897,24	-512 754,59	-468 256,67
J	Result on extraordinary incidents (J.I. - J.II.)	-	-	-	-	-	-
I.	Extraordinary gains	-	-	-	-	-	-
II.	Extraordinary losses	-	-	-	-	-	-
K	Gross Profit/Loss (I +/- J)	-1 883 323,31	-464 169,99	-430 326,36	-1 995 897,24	-512 754,59	-468 256,67
L	Income tax	-	-	-	-10 701,00	-2 749,13	-2 510,56
M	Other statutory appropriations of the profit	-	-	-	-	-	-
N	Net Profit/Loss (K - L - M)	-1 883 323,31	-464 169,99	-430 326,36	-1 985 196,24	-510 005,46	-465 746,11

Source: Company

Cash flow with comparative results

CASH FLOW	IVQ2016	IVQ2016	IVQ2016	IVQ2015	IVQ2015	IVQ2015
	PLN	USD	EUR	PLN	USD	EUR
A. Cash flows from operating activities						
I. Net profit (loss)	-1 883 323,31	-464 169,99	-430 326,36	-1 985 196,24	-510 005,46	-465 746,11
II. Total adjustments	252 276,41	62 176,86	57 643,42	69 128,09	17 759,30	16 218,11
III. Net cash flows from operating activities (I +/- II)	-1 631 046,90	-401 993,12	-372 682,94	-1 916 068,15	-492 246,15	-449 528,00
B. Cash flows from investment activities						
I. Inflows	25 203,25	6 211,67	5 758,77	1 617,87	415,64	379,57
II. Outflows	622 628,22	153 454,98	142 266,24	475 736,18	122 218,67	111 612,28
III. Net cash flows from investment activities (I-II)	-597 424,97	-147 243,30	-136 507,48	-474 118,31	-121 803,03	-111 232,71
C. Cash flows from financial activities						
I. Inflows	-	-	-	-	-	-
II. Outflows	13 946,92	3 437,40	3 186,77	27 876,54	7 161,60	6 540,10
III. Net cash flows from financial activities (I-II)	-13 946,92	-3 437,40	-3 186,77	-27 876,54	-7 161,60	-6 540,10
D. Total net cash flows (A.III. +/- B.III +/- C.III)	-2 242 418,79	-552 673,83	-512 377,19	-2 418 063,00	-621 210,79	-567 300,82
E. Balance sheet change in cash, including:	-2 242 418,79	-552 673,83	-512 377,19	-2 418 063,00	-621 210,79	-567 300,82
F. Cash opening balance	12 366 060,72	3 047 779,54	2 825 559,40	24 389 580,19	6 265 788,10	5 722 029,89
G. Closing balance of cash (F +/- D), including:	10 123 641,93	2 495 105,72	2 313 182,21	21 971 517,19	5 644 577,31	5 154 729,07

Source: Company

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

Statement of changes in share equity (funds)	IVQ2016	IVQ2016	IVQ2016	IVQ2015	IVQ2015	IVQ2015
	PLN	USD	EUR	PLN	USD	EUR
I. Opening balance of equity	18 397 371,07	4 534 275,91	4 203 672,13	25 747 019,28	6 614 520,05	6 040 498,14
I.a. Opening balance of equity after adjustments	18 397 371,07	4 534 275,91	4 203 672,13	25 747 019,28	6 614 520,05	6 040 498,14
II. Closing balance of equity	16 514 047,76	4 070 105,92	3 773 345,77	23 749 823,04	6 101 431,74	5 571 936,71
III. Equity including proposed profit distribution (loss coverage)	16 514 047,76	4 070 105,92	3 773 345,77	23 749 823,04	6 101 431,74	5 571 936,71

Source: Company

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

Pilab is continuing strategy of development on two paths. The first one, more mature, European path is growing in a stable and predictable way. Interest in our product on this market is still growing, we are observing this by stable increase of the sales projects we are working on.

Our approach to the entry into U.S. market is not changing. We continue focusing on exploring different use-cases, to search areas with the greatest potential to efficiently introduce our product to this market.

Latest implementations and production results observed in Europe with our customers confirmed that our product brings significant, yet unobserved value added to them. These data points reinforce our strategy for US market.

5. NOTES TO FINANCIAL DATA

The following exchange rates were applied:

EUR:

From	to	for Balance Sheet	for profit and loss	for cash flow
30.09.2015	31.12.2015	4,2615	4,2624	4,2624
30.09.2016	31.12.2016	4,4240	4,3765	4,3765

Source: NBP

USD:

From	to	for Balance Sheet	for profit and loss	for cash flow
30.09.2015	31.12.2015	3,9011	3,8925	3,8925
30.09.2016	31.12.2016	4,1793	4,0574	4,0574

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.