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## **ANNUAL REPORT**

**Beginning of financial year:** 13 February 2017

**End of financial year:** 31 December 2017

**Business name:** Polybius Foundation OÜ

**Registry number:** 14202836

**Street name:** Tartu mnt.

**Building number:** 43

**City:** Tallinn

**County:** Harju maakond

**Postcode:** 10128

**Telephone:** +372 5096235

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## Management report

In 2017, the company was mainly involved in participating in a crowdfunding campaign as an issuer and planning its development strategy. The campaign was carried out in the form of an Initial Coin Offering (ICO). The company formulated its development strategy and conducted negotiations with the future executive team. Based on the devised strategy, which also foresees international operations, the company began developing a holding structure. In the framework of the latter, subsidiaries will be incorporated in several European countries, including Belgium and Switzerland.

At the same time, negotiations were held with future strategic partners. One of them was the Institute for Innovation of the Republic of San Marino. In addition, the company communicated with several token exchanges to have the Polybius tokens accepted for trading there.

In 2018, the company intends to focus on developing and marketing financial software. The company does not rule out the possibility that in the development phase it will purchase other financial software developers or their products. The purpose of the software is to offer the user a private financial environment. Among other things, the environment will provide users with an overview of their financial position (of both assets and liabilities), analytics, finance optimisation advice and an opportunity to change financial service providers.

Concurrently with development, the company is planning to apply for financial activity licences. In particular, due to the requirements of the PSD2 directive the company is planning to apply for the licences of an Account Information Service Provider (AISP) and a Payment Initiation Service Provider (PISP). At the date this report is authorised for issue, the company has not yet decided in which country the applications will be filed.

In addition to software development and applying for licences, the company may invest in both market and private instruments. If this is done, the focus will be on mitigating the company's risks through diversification.

In 2018, the company expects to hire up to 20 employees. Some of them will be working in Estonia and some in Belgium. However, the company may also hire employees elsewhere. The main target market is Belgium where provision of services should begin in the first half of 2019. In the future, the company expects to expand its services to other EU member states. Besides hiring own employees, the company intends to use outsourcing and external consultants. This will ensure a flexible expense structure that is especially important for a new company.

The company's main risks include a changing regulatory landscape and volatility in the statement of financial position. The company's business plan is based on the EU financial regulation, particularly the PSD2 directive. The latter is expected to be fully implemented by 2019. If implementation does not proceed as expected, it may affect the company's business plan and development strategy. Moreover, at the moment short-term digital assets account for a major share of the company's total assets. Short-term digital assets are volatile and therefore the amount of total assets may change very quickly. The company is seeking ways to mitigate this volatility.

### Key financial indicators

	2017
Net profit	52,233,718
Current ratio	20,366.72
ROA (%)	64.98%
ROE (%)	64.98%

### Underlying formulas:

- Current ratio (times) = current assets/current liabilities
- ROA (%) = net profit/total assets\*100
- ROE (%) = net profit/total equity\*100

## Annual financial statements

### Statement of financial position

(In euros)

As at	31 December 2017	13 February 2017	Note
Assets			
Current assets			
Cash and cash equivalents	5,502,280	0	2
Investments	70,134,425	0	3
Receivables and prepayments	4,750,730	0	4
<b>Total current assets</b>	<b>80,387,435</b>	<b>0</b>	
<b>Total assets</b>	<b>80,387,435</b>	<b>0</b>	
Liabilities and equity			
Liabilities			
Current liabilities			
Payables and advances received	3,947	0	
<b>Total current liabilities</b>	<b>3,947</b>	<b>0</b>	
<b>Total liabilities</b>	<b>3,947</b>	<b>0</b>	
Equity			
Share capital at par value	2,500	2,500	6
Share capital not paid in	0	-2,500	
Share premium	28,147,270	0	
Profit for the year	52,233,718	0	
<b>Total equity</b>	<b>80,383,488</b>	<b>0</b>	
<b>Total liabilities and equity</b>	<b>80,387,435</b>	<b>0</b>	

## Income statement

(In euros)

For the period	13 February 2017 - 31 December 2017	Note
Other operating expenses	-24,751	
Other expenses	-86,363	
<b>Operating loss</b>	<b>-111,114</b>	
Interest income	19,981	
Other finance income and costs	52,324,851	7
<b>Profit before tax</b>	<b>52,233,718</b>	
<b>Profit for the year</b>	<b>52,233,718</b>	

## Statement of cash flows

(In euros)

For the period	13 February 2017 - 31 December 2017	Note
Cash flows from operating activities		
Operating loss	-111,114	
Change in receivables and prepayments	-3,232	
Change in payables and advances received	3,947	
<b>Net cash used in operating activities</b>	<b>-110,399</b>	
Cash flows from investing activities		
Interest received	19,981	
<b>Net cash from investing activities</b>	<b>19,981</b>	
Cash flows from financing activities		
Proceeds from issue of shares	2,500	
Other proceeds from financing activities	5,803,403	
<b>Net cash from financing activities</b>	<b>5,805,903</b>	
<b>Net cash flow</b>	<b>5,715,485</b>	
<b>Increase in cash and cash equivalents</b>	<b>5,715,485</b>	
Effect of movements in foreign exchange rates	-213,205	
Cash and cash equivalents at end of year	5,502,280	2

## Statement of changes in equity

(In euros)

					<b>Total</b>
	Share capital at par value	Share premium	Share capital not paid in	Retained earnings	
<b>As at 13 February 2017</b>	2,500	0	-2,500	0	0
Profit for the year	0	0	0	52,233,718	52,233,718
Issue of share capital	0	0	2,500	0	2,500
Other changes in equity	0	28,147,270	0	0	28,147,270
<b>As at 31 December 2017</b>	2,500	28,147,270	0	52,233,718	80,383,488

In 2017, the company carried out an Initial Coin Offering (ICO) of Polybius tokens (PLBT) with a view to financing a development project. The funds raised during the ICO have been recognised in the financial statements as *Share premium*.

PLBT holders did not acquire an ownership interest in the company. Instead, on the successful performance of the development project they are entitled to a 20% share of dividends distributed.

# Notes to the annual financial statements

## Note 1 Accounting policies

### General information

The annual financial statements of Polybius Foundation OÜ for 2017 have been prepared in accordance with the Estonian financial reporting standard. The main requirements of the Estonian financial reporting standard are set out in the Estonian Accounting Act and more specific guidance on it is provided in the guidelines issued by the Estonian Accounting Standards Board.

The financial statements are presented in euros.

The income statement has been prepared using format I. Both in the income statement and the notes containing disclosures about income statement line items, items of income and expense are presented as positive and negative amounts respectively (negative amounts are reported with a minus).

The company is a going concern.

### Financial assets

When financial assets are recognised initially, they are measured at their cost, which is equal to the fair value of the consideration given for them. The initial cost of a financial asset includes all transaction charges directly attributable to its acquisition. Transaction charges attributable to financial assets and derivative instruments acquired for trading are not included in their initial cost. Regular way purchases and sales of financial assets are recognised consistently at the trade date. After initial recognition, all financial assets are measured at their fair value (any changes in fair value are recognised in profit or loss). As an exception, receivables from other parties which the company has not acquired for resale are measured at their amortised cost.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank, demand deposits, term deposits with a short maturity (less than three months) and units in money market funds that are subject to an insignificant risk of changes in market value. In the statement of cash flows, cash flows from operating activities are reported using the indirect method. Cash flows from investing and financing activities are reported using the direct method.

### Foreign currency transactions and financial assets and liabilities denominated in a foreign currency

A foreign currency transaction is recorded on initial recognition by applying the official exchange rate of the European Central Bank quoted at the date of the transaction. Exchange gains and losses are recognised in the income statement in the period in which they arise.

At the reporting date, foreign currency monetary assets and liabilities are translated using the official exchange rates of the European Central Bank ruling at that date. Exchange gains and losses arising on translating items at rates different from those at which they were translated on initial recognition are recognised in the income statement in the period in which they arise.

### Investments

#### Cryptocurrency

The company defines a cryptocurrency as a virtual currency created using the blockchain technology that is a digital representation of specific value that is issued neither by a relevantly authorised central bank nor credit institution but which can be used as an alternative means of exchange.

The company uses cryptocurrencies both as a means of exchange and a store of value. Accordingly, in the statement of financial position a cryptocurrency is recognised as either cash or an investment. Those cryptocurrencies whose value does not change significantly over time or which are pegged to a currency issued by a specific central bank or credit institution (such as the US dollar) are accounted for as cash. Those cryptocurrencies whose value changes significantly over time are accounted for as investments.

Both short- and long-term investments in cryptocurrency are measured at their fair value as at the reporting date. As an exception, those cryptocurrencies whose fair value cannot be measured reliably are measured at their amortised cost (i.e. at cost less any impairment losses).

The fair value of a cryptocurrency is determined using the following method:

- the fair value of a cryptocurrency that is listed on the cryptocurrency exchange is measured based on the closing price of the cryptocurrency at the reporting date. The company uses the closing price of a cryptocurrency listed on CoinMarketCap on the trading day.

The Estonian financial reporting standard does not regulate the accounting for cryptocurrencies. Management has adopted the above accounting policies in consideration of the general principles and definitions of the Estonian financial reporting standard, particularly the principle that financial statements have to provide their user with a fair view of the company's financial position, financial performance and cash flows.



Accounting policies for cryptocurrencies were developed by taking into account the nature and purpose of use of the assets. According to management's assessment, the accounting policies adopted provide the most relevant information.

**Receivables and prepayments**

Receivables are measured in the statement of financial position at their amortised cost. Only collectible items are carried in the statement of financial position. Each receivable is measured taking into account the information available to the company about the debtor's solvency.

**Financial liabilities**

When financial liabilities (trade payables, loans, accrued expenses, debt securities issued and other short- and long-term liabilities) are recognised initially, they are measured at their cost, which includes any costs directly attributable to their acquisition. After initial recognition, financial liabilities are measured using the amortised cost method.

The amortised cost of short-term financial liabilities is generally equal to their nominal value. Therefore, short-term financial liabilities are measured in the statement of financial position at the amount payable. Long-term financial liabilities are measured at their amortised cost using the effective interest rate method.

**Income**

Interest income is recognised using the effective interest rate of the asset.

**Taxation**

Under the Estonian Income Tax Act, corporate earnings are not subject to income tax. Instead, income tax is levied on profit distributions. The amount of tax payable is calculated as 20/80 of the amount distributed as the net dividend. The income tax payable on the distribution of dividends is recognised as an expense in the period in which the dividend is declared irrespective of the period for which the dividend is declared or the period in which the dividend is actually distributed.

Due to the nature of the taxation system, deferred tax assets and liabilities do not arise. The income tax that would have to be paid if all of the retained earnings were distributed as dividends is disclosed in the notes to the financial statements as a contingent liability.

**Dividend distributions to holders of Polybius tokens (PLBT)**

On the successful performance of a new investment project, PLBT holders are distributed a dividend based on a resolution by the general meeting. PLBT holders are entitled to a dividend of 20% of the total profit distributed. PLBT holders are notified of the distribution of dividends by e-mail. To receive their dividend, PLBT holders have to transfer their tokens to the wallet of Polybius or another service provider recognised by Polybius. Dividend payments are made via Ethereum (ETH).

When dividends are not distributed in cash but in the form of transfers of other assets (e.g. ETH assets), the company recognises a dividend liability at the date the dividend is declared and measures it at the fair value of the assets to be transferred. At the reporting date and the date of transfer of the assets, the fair value of the assets is reassessed and if it has changed, the carrying amount of the dividend liability is adjusted. The effects of changes in fair value are recognised by adjusting *Retained earnings*. When the assets are transferred, the difference between the carrying amounts of the assets transferred and the dividend liability is recognised in the income statement.

**Related parties**

Parties are related when one has control, or significant influence over the operating decisions, of the other. The company regards the following persons as related parties:

- other group companies (e.g. other subsidiaries of the parent).
- members of the executive and higher management and people close to them unless those persons cannot exert significant influence on the company's operating decisions. In addition, related parties include close family members of and companies under the control or significant influence of the above persons.

## Note 2 Cash and cash equivalents

(In euros)

As at 31 December	2017
Current accounts	5,355,088
USDT	147,192
<b>Total cash and cash equivalents</b>	<b>5,502,280</b>

## Note 3 Short-term investments

(In euros)

	Other	Total
Other	70,134,425	70,134,425
<b>As at 31 December 2017</b>	<b>70,134,425</b>	<b>70,134,425</b>

Other short-term investments comprise cryptocurrency.

At 31 December 2017, the company held the following cryptocurrencies:

4,230.46 BTC (i.e. 49,935,862 euros)

27,482.92 ETH (i.e. 17,341,072 euros)

1,194,072.86 EMC (i.e. 2,857,491 euros)

## Note 4 Receivables and prepayments

(In euros)

	31 December 2017	12 months	Note
Receivables from related parties	2,750,730	2,750,730	8
Other receivables	2,000,000	2,000,000	
<b>Total receivables and prepayments</b>	<b>4,750,730</b>	<b>4,750,730</b>	

At 31 December 2017, the company had accounts receivable for the sale of PLBT, which were recognised as other receivables (3,500,000 euros and 1,500,000 US dollars, i.e. 1,250,730 euros). The settlement date of the receivables was 30 June 2018. At the date these financial statements are authorised for issue, all those receivables have been settled.

## Note 5 Contingent assets and liabilities

(In euros)

As at 31 December	2017
Contingent liabilities	
Maximum possible dividend distribution	41,786,974
Income tax liability on maximum possible dividend	10,446,744
<b>Total contingent liabilities</b>	<b>52,233,718</b>

## Note 6 Share capital

(In euros)

As at	31 December 2017	13 February 2017
Share capital	2,500	2,500
Number of shares	2,500	2,500
On 8 March 2018, the company gained a new shareholder. Thus, the company's share capital was increased by 1,100 euros to 3,600 euros of which 900 euros belongs to the new shareholder.		

## Note 7 Other finance income and costs

(In euros)

	13 February 2017 - 31 December 2017
Foreign exchange loss, current accounts	-206,901
Foreign exchange loss, USDT	-6,304
Foreign exchange gain, cryptocurrency	52,538,056
<b>Total other finance income and costs</b>	<b>52,324,851</b>

## Note 8 Related party disclosures

(In euros)

Name of reporting entity's parent company	Burfa Capital OÜ
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### Balances with related parties

	As at 31 December 2017	
	Receivables	Liabilities
Other group companies	2,750,730	3,886
Executive and higher management, individuals with a significant shareholding and companies under their control or significant influence	0	60

### Purchases and sales

	13 February 2017 – 31 December 2017
	Sales
Other group companies	3,515,477

Sales comprise issuance of tokens to a related party during the ICO.

## Digital signatures

Date of completion of the report: 9 August 2018

**The correctness of the information presented in the annual report of Polybius Foundation OÜ (registry number: 14202836) for the financial year 13 February 2017 - 31 December 2017 is electronically confirmed by:**

Name of signatory	Role of signatory	Date of signature
SERGEI POTAPENKO	Member of the Management Board	9 August 2018
IVAN TURÖGIN	Member of the Management Board	9 August 2018

*Translation of the Estonian original*

## **INDEPENDENT AUDITOR'S REPORT**

### **To the shareholders of Polybius Foundation OÜ**

#### ***Opinion***

We have audited the annual accounts of Polybius Foundation OÜ (the Company), which comprise the statement of financial position as at December 31, 2017, and the income statement, statement of cash flows and statement of changes in equity for the year then ended, and notes to the annual accounts, including a summary of significant accounting policies.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Estonian financial reporting standard.

#### ***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Accounts section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Other Information***

Management is responsible for the other information. The other information comprises the information included in the management report, but does not include the annual accounts and our auditor's report thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### ***Responsibilities of Management for the Annual Accounts***

Management is responsible for the preparation and fair presentation of the annual accounts in accordance with Estonian financial reporting standard, and for such internal control as management determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

***Auditor's Responsibility for the Audit of the Annual Accounts***

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

*/digitally signed/*

Sander Kallasmaa  
Auditor's number 447  
Baker Tilly Baltics OÜ  
Audit firm's activity licence number 84  
Tornimäe 5, Tallinn 10145  
August 10, 2018

## Auditors' digital signatures

The auditor's report accompanying the annual report of Polybius Foundation OÜ (registry number 14202836) for the financial year 13 February 2017 - 31 December 2017 is digitally signed by:

Name of signatory	Role of signatory	Date of signature
SANDER KALLASMAA	Certified Public Accountant	10 August 2018



## Profit allocation proposal

(In euros)

As at 31 December	2017
Profit for the year	52,233,718
<b>Total</b>	<b>52,233,718</b>
Allocations	
Retained earnings (prior periods) after allocations	52,233,718
<b>Total</b>	<b>52,233,718</b>

## Shareholders

Name / Business name	Personal ID code / Registry number / Date of birth	Residence / Seat	Amount and currency of shareholding
Burfa Capital OÜ	12504237	Estonia	2,700 euros (common ownership)
Pilatus OÜ	14314535	Estonia	900 euros (common ownership)

## Contacts

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