

REGISTERED NUMBER: 07479183 (England and Wales)

**Group Strategic Report,
Report of the Directors and
Consolidated Financial Statements
for the Year Ended 31 December 2018
for
Outbrain UK Limited**



Contents of the Consolidated Financial Statements
for the Year Ended 31 December 2018

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Outbrain UK Limited
Company Information
for the Year Ended 31 December 2018

Directors:

Y M Galai
M J Kistler

Secretary:

Abogado Nominees Limited

Registered office:

100 New Bridge Street
London
EC4V 6JA

Registered number:

07479183 (England and Wales)

Auditor:

KPMG LLP
15 Canada Square
London
E14 5GL

Outbrain UK Limited (Registered number: 07479183)

**Group Strategic Report
for the Year Ended 31 December 2018**

The directors present their strategic report of the Company and the Group for the year ended 31 December 2018.

Review of business

Outbrain is an online content discovery platform that provides personalised content recommendations that appear as links to articles and videos on digital publishers' web pages and mobile applications.

The results of the Group for the year under review are set out on page 7.

Turnover for the year was £116,454,567 (2017: £102,428,136). The gross profit for the year was £23,612,988 (2017: £15,236,969). The net loss for the year was £1,677,784 (2017: £212,116).

The Group is a subsidiary of Outbrain Inc, a company incorporated in the United States of America.

During the year, Outbrain Inc allocated indirect costs relating to server, licences and marketing to Outbrain UK Limited totalling £14,628,367 (2017: £3,558,132). The Group has continued to grow its top line year on year and improved its gross margin, whilst remaining a leader in the online recommendation market.

The Group's main business objective is to win and retain clients and to service our clients to the very highest level of satisfaction. We endeavour to continue on a number of fronts to grow and succeed in; (i) delivery of high service, (ii) continuous improvements in client value-added and productivity, and (iii) develop and introduce new products to our clients to stay ahead of competition.

Principal risks and uncertainties

The Group, in carrying out its business, faces a number of risks and uncertainties as detailed below.

Credit risk

The risk with respect to trade debtors is mitigated by a combination of credit evaluations we perform on our marketers and the short duration of our payment terms for the significant majority of our customer contracts.

Foreign exchange risk

Our consolidated results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. A substantial majority of our turnover and cost of sales are denominated in Sterling, with the remainder in Euros and US Dollar. Our operating expenses are generally denominated in the currencies in which our operations are located, with the majority in Sterling. Foreign exchange risk therefore exists due to the potential for loss from exposure to foreign exchange rate fluctuations. Group policies are aimed at minimising this risk.

Market risk

The Group operates in a highly competitive market, and the continued development of technology has the ability to create new competition.

Failure of a critical IT system

The product offered to customers relies upon a complex system of IT infrastructure. Failure of this technology could negatively affect customers and the Company's brand.

Key performance indicators

The Group is monitored on a monthly basis specifically with regard to actual performance to budget and forecast. The review is focused on the Group's 3 headline numbers being turnover, gross profit and net loss. We have made significant progress throughout the year in relation to key elements of our strategy.

Directors' Emoluments

No directors exercised share options during the current and prior year.

Future Developments

In the coming year we will continue to grow as our Parent company develops and introduces new products to our new and existing clients whilst working and collaborating with clients and continuing to deliver a high level of customer care.

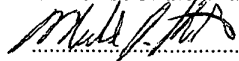
Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Brexit

On 23 June 2016, the UK electorate voted to discontinue its membership of the EU. Although the Directors are not able to assess the full impact until further clarity is known, the Company is predominantly an online business with no deliveries, nor import or export costs and therefore do not expect to be heavily impacted by Brexit.

On behalf of the board:


M J Kistler – Director

26/09/2019
Date

Outbrain UK Limited (Registered number: 07479183)

**Group Directors' Report
for the Year Ended 31 December 2018**

The directors present their report with the financial statements of the Company and the Group for the year ended 31 December 2018.

Principal activity

The principal activity of the Group remained as an online content discovery platform that provides personalised content recommendations that appear as links to articles and videos on digital publishers' web pages and mobile applications. Outbrain generates revenue from marketers through user engagements with promoted content recommendations that we deliver across a variety of third-party publisher partner properties. We pay traffic acquisition costs to our publisher partners on whose digital property the recommendation is shown. Our marketer solutions are priced using a performance-based model based on the actual number of engagements, or clicks, generated by users. The actual number of engagements generated by users is highly dependent on our ability to generate trustworthy and interesting recommendations to individual users based on our proprietary algorithms.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2018.

Disclosure of information to Auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Directors

The directors who held office during the year ended 31 December 2018 to the date of this report were as follows:

Y M Galai
M J Kistler

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office

On behalf of the board:


.....
M J Kistler – Director

26/09/2019
.....
Date

**Statement of Directors' Responsibilities
for the Year Ended 31 December 2018**

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

**Independent Auditor's Report to the Members of Outbrain UK Limited
for the Year Ended 31 December 2018**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OUTBRAIN UK LIMITED

Opinion

We have audited the financial statements of Outbrain UK Limited ("the company") for the year ended 31 December 2018 which comprise the Consolidated Profit and loss account and other comprehensive income, consolidated and company balance sheet, consolidated and company statement of changes in equity, consolidated cash flow statements and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

**Independent Auditor's Report to the Members of Outbrain UK Limited
for the Year Ended 31 December 2018**

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

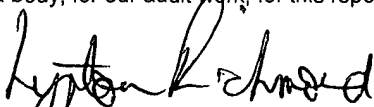
Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.


Lynton Richmond (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

30th September 2019

Outbrain UK Limited (Registered number: 07479183)

Consolidated Profit and Loss Account and Other Comprehensive Income
for the Year Ended 31 December 2018

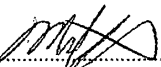
	Notes	2018 £	2017 £
Turnover	2	116,454,567	102,428,136
Cost of sales		<u>(92,841,579)</u>	<u>(87,191,167)</u>
Gross profit		23,612,988	15,236,969
Administrative expenses		<u>(24,077,533)</u>	<u>(16,145,265)</u>
Operating loss	5	(464,545)	(908,296)
Interest receivable and similar income		<u>66,518</u>	<u>1,764</u>
Loss before taxation		(398,027)	(906,532)
Tax (charge)/credit on loss	6	<u>(1,279,757)</u>	<u>694,416</u>
Loss for the financial year for the Group		<u>(1,677,784)</u>	<u>(212,116)</u>
Loss attributable to: Owners of the parent		<u>(1,677,784)</u>	<u>(212,116)</u>
Other comprehensive income			
Loss for the financial year		(1,677,784)	(212,116)
Share based compensation reserve		222,937	48,652
Foreign currency translation reserve		<u>(106,796)</u>	<u>(179,781)</u>
Total comprehensive loss attributable to: Owners of the parent		<u>(1,561,643)</u>	<u>(343,245)</u>

Outbrain UK Limited (Registered number: 07479183)

**Consolidated Balance Sheet
For the Year Ended 31 December 2018**

	Notes	2018 £	2017 £
Intangible assets			
Goodwill	8	296,078	214,799
Investments	9	<u>3,017</u>	<u>3,017</u>
		<u>299,095</u>	<u>217,816</u>
Current assets			
Debtors			
including £629,720 (2017: £953,488)			
due after more than one year	10	29,144,906	28,559,446
Cash at bank and in hand		<u>12,292,811</u>	<u>11,174,852</u>
		<u>41,437,717</u>	<u>39,734,298</u>
Creditors			
Amounts falling due within one year	11	<u>(41,142,728)</u>	<u>(37,796,387)</u>
Net current assets		<u>294,989</u>	<u>1,937,911</u>
Total assets less current liabilities		<u>594,084</u>	<u>2,155,727</u>
Capital and reserves			
Called up share capital	13	2,000,000	2,000,000
Foreign exchange reserve	14	(421,469)	(314,673)
Share based compensation reserve	14	983,674	760,737
Profit and loss account	14	<u>(1,968,121)</u>	<u>(290,337)</u>
Shareholders' funds	18	<u>594,084</u>	<u>2,155,727</u>

The financial statements were approved by the Board of Directors on 26 September 2019 and were signed on its behalf by:



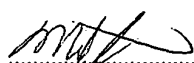
M J Kistler - Director

Outbrain UK Limited (Registered number: 07479183)

Company Balance Sheet
For the Year Ended 31 December 2018

	Notes	2018 £	2017 £
Fixed assets			
Tangible assets	8	226,115	201,856
Investments	9	<u>969,142</u>	<u>789,660</u>
		<u>1,195,257</u>	<u>991,516</u>
Current assets			
Debtors			
(including £925,639 (2017: £205,191) due after more than one year)	10	29,027,174	28,582,121
Cash at bank and in hand		<u>12,106,799</u>	<u>11,072,532</u>
		41,133,973	39,654,653
Creditors			
Amounts falling due within one year	11	<u>(40,844,320)</u>	<u>(38,141,665)</u>
Net current assets		<u>289,653</u>	<u>1,512,988</u>
Total assets less current liabilities		<u>1,484,910</u>	<u>2,504,504</u>
Capital and reserves			
Called up share capital	13	2,000,000	2,000,000
Foreign exchange reserve	14	(423,962)	(332,496)
Share based compensation reserve	14	1,582,117	1,218,634
Profit and loss account	14	<u>(1,673,245)</u>	<u>(381,634)</u>
Shareholders' funds	18	<u>1,484,910</u>	<u>2,504,504</u>

The financial statements were approved by the Board of Directors on 26 September 2019 and were signed on its behalf by:



M-J Kistler - Director

**Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2018**

	Called up share capital £	Profit & loss account £	Foreign exchange reserve £	Share based compensation £	Total equity £
Balance at 1 January 2017	2,000,000	(78,221)	(134,892)	712,085	2,498,972
Changes in equity					
Loss for the year	-	(212,116)	-	-	(212,116)
Other comprehensive income	-	-	(179,781)	48,652	(131,129)
Balance at 31 December 2017	<u>2,000,000</u>	<u>(290,337)</u>	<u>(314,673)</u>	<u>760,737</u>	<u>2,155,727</u>
Changes in equity					
Loss for the year	-	(1,677,784)	-	-	(1,677,784)
Other comprehensive income	-	-	(106,796)	222,937	116,141
Balance at 31 December 2018	<u>2,000,000</u>	<u>(1,968,121)</u>	<u>(421,469)</u>	<u>983,674</u>	<u>594,084</u>

**Company Statement of Changes in Equity
For the Year Ended 31 December 2018**

	Called up share capital £	Profit & loss account £	Foreign exchange reserve £	Share based compensation £	Total equity £
Balance at 1 January 2017	2,000,000	(117,927)	(141,042)	999,442	2,740,473
Changes in equity					
Loss for the year	-	(263,707)	-	-	(263,707)
Other comprehensive income	-	-	(191,454)	219,192	27,738
Balance at 31 December 2017	<u>2,000,000</u>	<u>(381,634)</u>	<u>(332,496)</u>	<u>1,218,634</u>	<u>2,504,504</u>
Changes in equity					
Loss for the year	-	(1,291,611)	-	-	(1,291,611)
Other comprehensive income	-	-	(91,466)	363,483	272,017
Balance at 31 December 2018	2,000,000	(1,673,245)	(423,962)	1,582,117	1,484,910

**Consolidated Cash Flow Statement
for the Year Ended 31 December 2018**

	Notes	2018 £	2017 £
Cash flows from operating activities			
Cash generated from operations	20	2,444,354	(5,902,436)
Taxes (paid)/refunded		<u>(1,148,360)</u>	<u>124,602</u>
Net cash from operating activities		<u>1,295,994</u>	<u>(5,777,834)</u>
Cash flows from investing activities			
Purchase of tangible fixed assets		(285,841)	(222,316)
Disposal of tangible fixed assets		41,288	38,131
Increase in investments		-	(141)
Interest and other income received		<u>66,518</u>	<u>1,764</u>
Net cash from investing activities		<u>(178,035)</u>	<u>(182,562)</u>
(Decrease)/increase in cash and cash equivalents		1,117,959	(5,960,396)
Cash and cash equivalents at beginning of year	21	11,174,852	17,135,248
Cash and cash equivalents at end of year	21	<u>12,292,811</u>	<u>11,174,852</u>

**Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2018**

1. Accounting policies

Outbrain UK Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 applicable with UK and the Republic of Ireland.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2018. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Going Concern

During the year the company made a loss after tax of £1,677,784 (2017: loss of £212,116). At the balance sheet date it held net assets of £294,989 (2017: £1,937,911). Notwithstanding, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company's forecasts and projections, which are prepared for a period greater than 12 months from the date of approval of these financial statements and taking account reasonably possible changes in trading performance show that the company should be able to continue to operate as a going concern. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Turnover

Revenue in respect of content recommendations and promoted content is recognised when the Company obtains the right to consideration exchange for its performance which is based on click through rates on a pay-per-click basis. The Company places its content discovery platform on internet publishers' websites; as users click through on the recommended content, or promoted content, the platform records a click, which generates chargeable revenue from the content provider. Content recommendation and promoted content revenues are recorded net of value added tax.

Financial instruments

In the Outbrain UK Limited balance sheet, investments in subsidiaries and associates are measured at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration.

Tangible fixed assets

Tangible fixed assets are recorded at historical cost less accumulated depreciation. Cost comprises the purchase price and any costs directly attributable to bringing the asset to its working condition and location for its intended use. Depreciation is provided at the following annual rates in order to write down the cost of each asset to its estimated residual value over its estimated useful life:

Computer equipment	2 - 5 years straight line
Fixtures and fittings	3 years straight line

Deferred tax

Deferred tax is recognised in respect of all material timing differences that have originated but not reversed at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

The results of the Group's foreign operations are translated at the average rates of exchange during the period and its balance sheet at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of the operation are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

Hire purchase and leasing commitments

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease

Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2018

Pension costs and other post-retirement benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions payable to the Group's pension scheme are charged to the profit and loss account in the period to which they relate.

Share based payments

The Company issues equity-settled share options to certain employees within the Group. Equity-settled share-based payment transactions are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes pricing model which is considered by management to be the most appropriate method of valuation. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Investments

Investments held as fixed assets are stated at cost. Income from investments is recorded in the profit and loss account when the right to receive that income has been confirmed.

2. Turnover

The turnover and loss before taxation are attributable to the one principal activity of the Group.

An analysis of turnover by geographical market is given below:

	2018 £	2017 £
United Kingdom	12,084,165	21,582,938
Europe	102,610,148	80,403,565
United States of America	1,089,902	284,090
Rest of World	670,352	157,543
	<u>116,454,567</u>	<u>102,428,136</u>

Turnover generated through United Kingdom but promoted on publishers across the world is recognised within United Kingdom above.

3. Staff costs

	2018 £	2017 £
Wages and salaries	19,044,167	7,145,316
Social security costs	1,494,323	1,333,237
Other pension costs	300,113	298,047
	<u>20,838,603</u>	<u>8,776,600</u>

The cost of contributions of the defined contribution schemes for the year was £300,113 (2017: £298,047). Pension contribution costs accrued, but not paid at the end of the year amounted to £33,145 (2017: £26,708).

The average monthly number of employees during the year was as follows:

	2018	2017
General and administrative	18	17
Sales and marketing	<u>108</u>	<u>95</u>
Total average employees	<u>126</u>	<u>112</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

4 Directors' emoluments

The directors are remunerated by the parent entity, Outbrain Inc. The estimated proportion of their remuneration attributable to the Group and these accounts are considered immaterial.

No directors exercised share options during the year (2017 – nil).

5. Operating loss

The operating loss is stated after charging/(crediting):

	2018	2017
	£	£
Other operating leases	597,117	688,588
Depreciation - owned assets	149,523	169,066
Loss/(Gain) on disposal of fixed assets	13,511	17,246
Auditor's remuneration	51,245	42,100
Share based payment compensation	237,865	283,601
Net foreign exchange (gain)/loss	(2,956,684)	1,754,763

During 2018 the average value of Sterling decreased against the Euro. As Outbrain holds significant cash and debtor balances in Euros this resulted in a large FX gain. Currency rates continue to fluctuate as a result of Brexit.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

6. Taxation

Analysis of the tax (credit)/charge:

The tax (credit)/charge on the loss on ordinary activities for the year was as follows:

	2018 £	2017 £
Current Tax		
UK corporation tax	-	(356,734)
Adjustments in respect of prior periods - UK	378,449	(48,817)
Foreign corporation tax	548,829	370,945
Adjustments in respect of prior periods – Foreign Tax	(4,371)	(54,502)
Total current tax	<u>922,907</u>	<u>(89,108)</u>
Deferred Tax		
Origination and reversal of timing differences	(57,866)	(649,913)
Adjustments in respect of prior periods	386,432	(5,490)
Impact of change of tax rates	28,284	50,095
Total current tax	<u>1,279,757</u>	<u>(694,416)</u>

The tax assessed for the period is higher (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 £	2017 £
Loss on activities before tax	<u>(398,027)</u>	<u>(906,532)</u>
Income tax at the UK tax rate of 19.25% (2017: 19.25%)	(76,620)	(174,508)
Non-deductible expenses	32,867	(11,879)
Permanent differences to reserves	-	(800,296)
Foreign tax	531,066	311,755
Difference in foreign tax rates	(721)	(15,276)
Change in tax rate – deferred tax	28,284	50,095
Prior Year True-ups – deferred tax	386,432	(5,490)
Adjustments to tax in respect of prior years	378,449	(48,817)
Tax on loss on ordinary activities	<u>1,279,757</u>	<u>(694,416)</u>

7. Loss for the financial year of the Company

Section 408 of the Companies Act 2006 permits that, where Group financial statements are prepared in accordance with this legislation, the individual profit and loss account of the Company need not be presented. The Company's loss for the financial year was £1,291,611 (2017: £263,707).

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

8. Tangible fixed assets

Group

	Improvements to property £	Fixtures and fittings £	Computer equipment £	Totals £
Cost				
At 1 January 2018	80,969	187,011	373,793	641,773
Additions	67,934	59,378	158,529	285,841
Disposals	(3,394)	(43,750)	(74,334)	(121,478)
Exchange differences	3,120	1,592	(1,429)	3,283
At 31 December 2018	<u>148,629</u>	<u>204,231</u>	<u>456,559</u>	<u>809,419</u>
Depreciation				
At 1 January 2018	8,109	135,702	283,163	426,974
Charge for year	23,452	35,855	91,329	150,636
Eliminated on disposal	(3,017)	(31,791)	(31,872)	(66,680)
Exchange differences	63	1,221	1,127	2,411
At 31 December 2018	<u>28,607</u>	<u>140,987</u>	<u>343,747</u>	<u>513,341</u>
Net book value				
At 31 December 2018	<u>120,022</u>	<u>63,244</u>	<u>112,812</u>	<u>296,078</u>
At 31 December 2017	<u>72,860</u>	<u>51,309</u>	<u>90,630</u>	<u>214,799</u>

Company

	Improvements to property £	Fixtures and fittings £	Computer equipment £	Totals £
Cost				
At 1 January 2018	80,969	187,011	346,512	614,492
Additions	60,819	27,259	120,439	208,517
Disposals	(3,394)	(43,750)	(72,253)	(119,397)
Exchange differences	3,120	1,592	1,709	6,421
At 31 December 2018	<u>141,514</u>	<u>172,112</u>	<u>396,407</u>	<u>710,033</u>
Depreciation				
At 1 January 2018	8,109	135,702	268,825	412,636
Charge for year	22,206	31,440	79,975	133,621
Eliminated on disposal	(3,017)	(31,791)	(29,793)	(64,601)
Exchange differences	62	1,221	979	2,263
At 31 December 2018	<u>27,362</u>	<u>136,571</u>	<u>319,985</u>	<u>483,918</u>
Net book value				
At 31 December 2018	<u>114,152</u>	<u>35,541</u>	<u>76,422</u>	<u>226,115</u>
At 31 December 2017	<u>72,860</u>	<u>51,309</u>	<u>77,687</u>	<u>201,856</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

9. Fixed asset investments
Group

	Unlisted investments £
Cost	
At 1 January 2018	3,017
Additions	-
At 31 December 2018	<u>3,017</u>
Net book value	
At 31 December 2018	<u>3,017</u>
At 31 December 2017	<u>3,017</u>

Outbrain UK Limited holds a 1% share in Outbrain Services Monetização de Conteúdo Ltda, a company incorporated in Brazil and registered at Rua Leopoldo Couto de Magalhães Jr., 758-11°, CEP 04534-040, São Paulo. Outbrain Inc, a company incorporated in the United States of America, holds the remaining 99%.

Company

	Unlisted investments £
Cost	
At 1 January 2018	789,660
Additions	<u>179,481</u>
At 31 December 2018	<u>969,142</u>
Net book value	
At 31 December 2018	<u>969,142</u>
At 31 December 2017	<u>789,660</u>

Outbrain UK Limited holds a 100% share in Outbrain Sweden AB, a company incorporated in Sweden and registered at Eriksbergsgatan 42, SE 114 30, Stockholm.

Outbrain UK Limited hold a 100% share in Outbrain Italy Srl, a company incorporated in Italy and registered at Corso Magenta 56, Milano, Cap 20123.

Outbrain UK Limited hold a 100% share in Outbrain Spain S.L., a company incorporated in Spain and registered at Ronda General Mitre, 28-30, Barcelona 08017.

The directors have considered the carrying value of the investment for both the Group and Company through review of the forecasts of the business and the net assets of the entities. Following this exercise they do not believe any impairments are required. The increase in investments by the Company is related to share-based payment transactions.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

10. Debtors

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	27,324,704	26,087,773	27,324,704	26,087,772
Amounts owed by Group undertakings	812,583	647,616	812,583	647,616
Other debtors	197,588	442,285	197,588	436,379
Deferred tax asset	456,233	812,728	410,410	784,879
Prepayments	180,310	153,035	141,129	124,219
Social security and other taxes	-	275,249	-	360,496
	<u>28,971,418</u>	<u>28,418,686</u>	<u>28,886,414</u>	<u>28,441,361</u>
Amounts falling due after more than one year:				
Other debtors	<u>173,488</u>	<u>140,760</u>	<u>140,760</u>	<u>140,760</u>
Aggregate amounts	<u>29,144,906</u>	<u>28,559,446</u>	<u>29,027,174</u>	<u>28,582,121</u>

Deferred Tax Asset

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Deferred tax	<u>456,233</u>	<u>812,728</u>	<u>410,410</u>	<u>784,879</u>

A deferred tax asset of £456,233 is recognised on the balance sheet at 31 December 2018. This balance comprises predominately of temporary differences relating to losses carried forward of £145,546, share based payment compensation of £246,372 and other timing differences of £64,315.

The current UK corporation tax rate is 19% (effective from 1 April 2017). The Finance Act (no.2) 2015 included legislation to reduce the rate of UK corporation from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020). An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at the balance sheet date has been calculated based on these rates.

11. Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	2018	2017
	£	£	£	£
Trade creditors	8,915,091	7,795,107	8,904,904	7,771,875
Amounts owed to Group undertakings	7,410,535	5,910,895	7,422,965	6,444,889
Corporation tax	276,360	51,262	246,346	43,188
Social security and other taxes	221,075	-	103,638	-
Value added tax	270,172	102,396	322,584	131,655
Other creditors	510,333	320,534	510,333	320,534
Accruals	<u>23,539,162</u>	<u>23,616,193</u>	<u>23,333,550</u>	<u>23,429,524</u>
	<u>41,142,728</u>	<u>37,796,387</u>	<u>40,844,320</u>	<u>38,141,665</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

12. Operating lease commitments

The following operating lease payments are committed to be paid:

Group

	Leases on property	
	2018	2017
	£	£
Within one year	647,230	322,108
Between one and five years	2,098,403	1,022,580
More than five years	-	116,701
	<u>2,745,633</u>	<u>1,461,389</u>

Company

	Leases on property	
	2018	2017
	£	£
Within one year	642,632	317,556
Between one and five years	2,098,403	1,022,580
More than five years	-	116,701
	<u>2,471,035</u>	<u>1,456,837</u>

13. Called up share capital

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2018	2017
			£	£
2,000,000	Ordinary	£1	<u>2,000,000</u>	<u>2,000,000</u>

14. Reserves

Group

	Profit and loss account £	Foreign exchange reserve £	Share based compensation reserve £	Totals £
At 1 January 2018	(290,337)	(314,673)	760,737	155,727
Loss for the year	(1,677,784)	-	-	(1,677,784)
Other reserves	-	(106,796)	222,937	116,141
At 31 December 2018	<u>(1,968,121)</u>	<u>(421,469)</u>	<u>983,674</u>	<u>(1,405,916)</u>

Company

	Profit and loss account £	Foreign exchange reserve £	Share based compensation reserve £	Totals £
At 1 January 2018	(381,634)	(332,496)	1,218,634	504,504
Loss for the year	(1,291,611)	-	-	(1,291,611)
Other reserves	-	(91,466)	363,483	272,015
At 31 December 2018	<u>(1,673,245)</u>	<u>(423,962)</u>	<u>1,582,117</u>	<u>(515,092)</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

15. **Ultimate parent company**

Outbrain Inc (incorporated in United States of America) is regarded by the directors as being the Company's ultimate parent company. Both the highest and lowest levels at which the results of the Group are consolidated are in the accounts of Outbrain Inc. These accounts are not publicly available. Outbrain Inc is registered at 615 South DuPont Highway, Dover, Delaware 19901.

16. **Related party disclosures**

Outbrain Inc

Immediate parent

During the year the following transaction took place with Outbrain Inc:

Net revenues invoiced by Outbrain Inc to customers within the Company's territory were transferred over totalling £16,620,680 (2017: £9,156,157).

During the year the Company recharged expenses paid for on behalf of Outbrain Inc totalling £7,852 (2017: £57,513).

Expenses paid for by Outbrain Inc on behalf of the Company were recharged totalling £18,185 (2017: £250,045).

Outbrain, Inc. charged the Company £5,823,903 (2017: £5,121,576) for use of IP.

During the year the Company issued a loan to Outbrain Inc. The amount due from the related party at the balance sheet date was £4,880,254 (2017: nil). Interest is charged on the loan and at the balance sheet date amounted to £64,285 (2017: nil). Both the loan and interest receivable are repayable on demand.

During the year, Outbrain Inc allocated costs relating to server, licences, marketing and payroll to Outbrain UK Limited totalling £14,628,367 (2017: £3,558,131).

	2018 £	2017 £
Amount due to related party at the balance sheet date	<u>6,660,214</u>	<u>5,578,500</u>

Outbrain Services Monetização de Conteúdo Ltda

A company in which Outbrain UK Limited hold an investment, registered office address Rue Leopoldo, Couto de Magalhães Jr., 758 - 11. and. - 1134A - São Paulo - SP 04542-000, Brasil.

Net revenues invoiced by Outbrain Services Monetização de Conteúdo Ltda to customers within the Company's territory of £444,485 (2017: £35,866) were transferred to the Company.

	2018 £	2017 £
Amount due to related party at the balance sheet date	<u>691,799</u>	<u>277,381</u>

Outbrain Singapore Pte. Ltd

Subsidiary of Outbrain Inc, registered office address 6 Battery Road, #010-01, Singapore 049909.

Expenses paid for by Outbrain Singapore Pte. Ltd on behalf of the Company were recharged totalling £4,124 (2017: £486)

	2018 £	2017 £
Amount due to related party at the balance sheet date	<u>10,363</u>	<u>5,964</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

16. Related party disclosures - continued

Outbrain Israel Ltd

Subsidiary of Outbrain Inc, located at 6 Arye Regev St., 2nd & 3rd Floor, Netanya, Israel 4250213.

During the year there were no expenses paid for by the Company on behalf of Outbrain Israel Ltd (2017: £1,219)

	2018	2017
	£	£
Amount due to related party at the balance sheet date	<u>48,121</u>	<u>49,052</u>

Outbrain Australia PTY Ltd

Subsidiary of Outbrain Inc, registered office address Suite 2204, Level 22, 520 Oxford Street, Bondi Junction, NSW, 2022.

During the year there were no expenses paid for by the Company on behalf of Outbrain Australia PTY Ltd (2017: £nil).

	2018	2017
	£	£
Amount due from related party at the balance sheet date	<u>4,794</u>	<u>4,794</u>

Outbrain Japan KK

Subsidiary of Outbrain Inc, registered office address Ebisu SA Building, 1-20-5 Ebishu nishi, Shibuya-ku, Tokyo.

Net revenues invoiced to Outbrain Japan KK by customers within the Company's territory of £90,078 (2017: £35,984) were transferred to the Company.

	2018	2017
	£	£
Amount due from related party at the balance sheet date	<u>787,238</u>	<u>642,822</u>

Zemanta Holdings

Subsidiary of Outbrain Inc, registered office address 251 Little Falls Drive, Willington, DE 19808.

During the year the Company recharged expenses paid for on behalf of Zemanta Holdings totalling £20,552 (2017: £nil).

	2018	2017
	£	£
Amount due from related party at the balance sheet date	<u>20,552</u>	<u>-</u>

17. Ultimate controlling party

The directors consider Outbrain Inc to be the ultimate controlling party of the Company.

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

18. Reconciliation of movements in shareholders' funds

Group

	2018 £	2017 £
Loss for the financial year	(1,677,784)	(212,116)
Share based compensation reserve	222,937	48,652
Foreign exchange reserve	(106,796)	(179,781)
Net reduction to shareholders' funds	(1,561,643)	(343,245)
Opening shareholders' funds	<u>2,155,727</u>	<u>2,498,972</u>
Closing shareholders' funds	<u>594,084</u>	<u>2,155,727</u>

Company

	2018 £	2017 £
Loss for the financial year	(1,291,611)	(263,707)
Share based compensation reserve	363,483	219,192
Foreign exchange reserve	(91,466)	(191,454)
Net reduction to shareholders' funds	(1,019,594)	(235,969)
Opening shareholders' funds	<u>2,504,504</u>	<u>2,740,473</u>
Closing shareholders' funds	<u>1,484,910</u>	<u>2,504,504</u>

19. Share-based payment transactions

The Group adopted share option plans to benefit the shareholders of Outbrain Inc and to align the interests of such employees with those of the Company's shareholders.

New employee share options have vesting terms of 25% after 1 year and the balance in equal monthly instalments over the next 36 months thereafter. Refreshments and anniversary share options vest monthly over 48 months. IPO share options vest 100% on IPO or a Change of Control. Options granted under the CSOP Plan will not vest until an Exit Event (IPO or Change of Control) or upon termination of employment, and then only in respect to the portion set out in the terms of the optionee's agreement.

123 (2017: 140) employees benefit from the plans. The movements to 31 December 2017 and to 31 December 2018 are shown below:

	<u>Options</u> <u>Number</u>	<u>Outstanding</u> <u>Weighted</u> <u>Average Exercise</u> <u>Price \$</u>
Outstanding as at 31 December 2016	1,350,107	\$3.30
Granted	345,000	\$4.41
Exercised	(89,500)	\$1.02
Cancelled	(327,608)	\$4.20
Outstanding as at 31 December 2017	<u>1,277,999</u>	<u>\$3.52</u>
Exercisable at 31 December 2017	<u>630,165</u>	<u>\$3.40</u>
	<u>Options</u> <u>Number</u>	<u>Outstanding</u> <u>Weighted</u> <u>Average Exercise</u> <u>Price \$</u>
Outstanding as at 31 December 2017	1,277,999	\$3.52
Granted	176,000	\$4.64
Exercised	(3,439)	\$4.87
Cancelled	(162,284)	\$4.16
Outstanding as at 31 December 2018	<u>1,284,614</u>	<u>\$3.23</u>
Exercisable at 31 December 2018	<u>693,157</u>	<u>\$2.91</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2018

20. Reconciliation of operating loss to net cash inflow from operating activities

	2018 £	2017 £
Operating loss	(464,545)	(908,296)
Depreciation charges	150,636	169,066
(Gain)/Loss on disposal of fixed assets	13,511	17,246
Non cash foreign exchange movements	(875)	(3,275)
Increase in share based compensation	222,937	48,652
(Decrease) in foreign currency translation reserve	(106,796)	(179,781)
Increase in debtors	(941,955)	(4,897,635)
Increase/(decrease) in creditors	3,571,441	(148,413)
Net cash inflow from operating activities	2,444,354	(5,902,436)

21. Cash and cash equivalents

The amounts disclosed on the Consolidated cash flow statement in respect of cash and cash equivalents are in respect of these Balance sheet amounts:

Year ended 31 December 2018

	2018 £	2017 £
Cash and cash equivalents	<u>12,292,811</u>	<u>11,174,852</u>

Year ended 31 December 2017

	2018 £	2017 £
Cash and cash equivalents	<u>11,174,852</u>	<u>17,135,248</u>