

REGISTERED NUMBER: 07479183 (England and Wales)

**Group Strategic Report,
Report of the Directors and
Consolidated Financial Statements
for the Year Ended 31 December 2019
for
Outbrain UK Limited**



**Contents of the Consolidated Financial Statements
for the Year Ended 31 December 2019**

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Outbrain UK Limited
Company Information
for the Year Ended 31 December 2019

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

**Group Strategic Report
for the Year Ended 31 December 2019**

The directors present their strategic report of the Outbrain UK Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2019.

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 8.

Turnover for the year was £136,566,763 (2018: £116,454,567). The gross profit for the year was £25,286,350 (2018: £23,612,988). The net loss for the year was £7,365,050 (2018: £1,677,784) mainly due to FX losses during the year of £3,691,282 (2018: FX Gain £2,952,749).

The Company 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 £7,753,925 (2018: £14,628,367). 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 quality service, (ii) continuous improvements in client value-added service and productivity, and (iii) development and introduction of 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 the credit evaluations that we perform 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 being compared to budget and forecast. The review is focused on the Group's three headline numbers being turnover, gross profit and net loss.

Directors' Emoluments

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

**Group Strategic Report continued
for the Year Ended 31 December 2019**

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

During the year the company made a loss after tax of £7,365,050 (2018: loss of £1,677,784). At the balance sheet date, it held net liabilities of £6,325,747 (2018: Net assets £294,989)

The Directors have prepared a forecast for 12 months from the date of approvals of these financial statements on which basis they believe the company has adequate resources to continue in operational existence through at least the forecasted period including FY20 and FY21.

The company's forecasts and projections show that the company should be able to continue to operate as a going concern. A significant part of FY19 losses related to foreign exchange losses, which is no longer the case in FY20. In FY20, the company renegotiated a number of key publisher contracts as part of its response to the changing environment of COVID-19 which significantly improved its gross margin. This together with an increased demand for online marketing has resulted in FY20 exceeding budget, expected to be profitable for the full year and the company is on track to meet its FY21 forecast.

In preparing these forecasts, the impact of COVID-19 has been considered. The Directors are satisfied that the COVID-19 impact on the Company has been and will continue to be manageable. The company has exceeded its FY20 budget and continues to monitor its creditors and liabilities. As of December 2020, the company has sufficient cash in bank, which together with its forecasted cash flows will allow it to meet its obligations for a minimum of 12 month from the date of the approval of these financial statements.

Accordingly, the company continues to adopt the going concern basis in preparing the annual report and accounts.

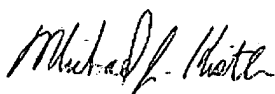
Brexit

On 31 January 2020, the UK confirmed cessation of 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.

Coronavirus COVID-19

The directors have undertaken a review across the business for the impact of the spread of the coronavirus across the world, to the extent possible given the rapidly changing situation. The entire Company has shifted to carry out the work through remote working and business has performed well during this period. The Company has not made any redundancies nor put any employees onto the furlough scheme to date. The Company has maintained its DSO with strong cash collections and hence a very healthy cash position on its Balance Sheet. Identified risks and changes have been explored and suitable mitigants identified or put in place to the extent possible. The Directors are satisfied that the impact on the Company is manageable and does not impact its presentation as a going concern.

On behalf of the board:



.....
M J Kistler - Director

Date: 11 December 2020

**Group Directors' Report
for the Year Ended 31 December 2019**

The directors present their report with the financial statements of the Company and the Group for the year ended 31 December 2019.

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 2019 (2018: £nil).

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 2019 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

Date: 11 December 2020

**Statement of Directors' Responsibilities
for the Year Ended 31 December 2019**

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 2019**

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 2019 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

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 2019 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.

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

**Independent Auditor's Report to the Members of Outbrain UK Limited
for the Year Ended 31 December 2019**

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. or

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, 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.

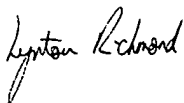
Auditor's responsibilities

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

11 December 2020

**Consolidated Profit and Loss Account and Other Comprehensive Income
for the Year Ended 31 December 2019**

	Notes	2019 £	2018 £
Turnover	2	136,566,763	116,454,567
Cost of sales		<u>(111,280,413)</u>	<u>(92,841,579)</u>
Gross profit		25,286,350	23,612,988
Administrative expenses		<u>(32,413,074)</u>	<u>(24,077,533)</u>
Operating loss	5	(7,126,724)	(464,545)
Interest receivable and similar income		<u>106,190</u>	<u>66,518</u>
Loss before taxation		(7,020,534)	(398,027)
Tax (charge)/credit on loss	6	<u>(344,516)</u>	<u>(1,279,757)</u>
Loss for the financial year for the Group		<u>(7,365,050)</u>	<u>(1,677,784)</u>
Loss attributable to: Owners of the parent		<u>(7,365,050)</u>	<u>(1,677,784)</u>
Other comprehensive income			
Loss for the financial year		(7,365,050)	(1,677,784)
Share based compensation reserve		150,799	222,937
Foreign currency translation reserve		<u>583,359</u>	<u>(106,796)</u>
Total comprehensive loss attributable to: Owners of the parent		<u>(6,630,892)</u>	<u>(1,561,643)</u>

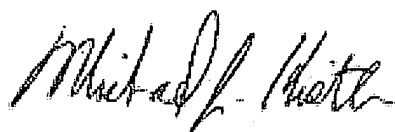
Notes on the pages 14 to 25 form an integral part of these statements

Consolidated Balance Sheet
For the Year Ended 31 December 2019

	Notes	2019 £	2018 £
Fixed assets			
Tangible assets	8	288,085	296,078
Investments	9	<u>854</u>	<u>3,017</u>
		<u>288,939</u>	<u>299,095</u>
Current assets			
Debtors			
(including £2,459,982 (2018: £629,720) due after more than one year)	10	39,948,471	29,144,906
Cash at bank and in hand		<u>8,095,967</u>	<u>12,292,811</u>
		48,044,438	41,437,717
Creditors			
Amounts falling due within one year	11	<u>(54,370,185)</u>	<u>(41,142,728)</u>
Net current (liabilities)/assets		<u>(6,325,747)</u>	<u>294,989</u>
Total assets less current liabilities		<u>(6,036,808)</u>	<u>594,084</u>
Capital and reserves			
Called up share capital	13	2,000,000	2,000,000
Foreign exchange reserve	14	161,890	(421,469)
Share based compensation reserve	14	1,134,473	983,674
Profit and loss account	14	<u>(9,333,171)</u>	<u>(1,968,121)</u>
Shareholders' funds	18	<u>(6,036,808)</u>	<u>594,084</u>

Notes on the pages 14 to 25 form an integral part of these statements

The financial statements were approved by the Board of Directors on 11 December 2020 and were signed on its behalf by:



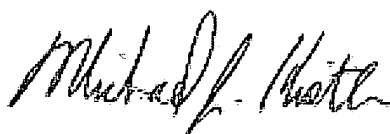
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M J Kistler - Director

Company Balance Sheet
For the Year Ended 31 December 2019

	Notes	2019 £	2018 £
Fixed assets			
Tangible assets	8	225,010	226,115
Investments	9	<u>1,086,616</u>	<u>969,142</u>
		<u>1,311,626</u>	<u>1,195,257</u>
Current assets			
Debtors			
(including £375,214 (2018: £925,639) due after more than one year)	10	39,774,259	29,027,174
Cash at bank and in hand		<u>7,799,578</u>	<u>12,106,799</u>
		47,573,837	41,133,973
Creditors			
Amounts falling due within one year	11	<u>(54,363,928)</u>	<u>(40,844,320)</u>
Net current (liabilities)/assets		<u>(6,790,091)</u>	<u>289,653</u>
Total assets less current liabilities		<u>(5,478,465)</u>	<u>1,484,910</u>
Capital and reserves			
Called up share capital	13	2,000,000	2,000,000
Foreign exchange reserve	14	(192,144)	(423,962)
Share based compensation reserve	14	1,817,858	1,582,117
Profit and loss account	14	<u>(9,104,179)</u>	<u>(1,673,245)</u>
Shareholders' funds	18	<u>(5,478,465)</u>	<u>1,484,910</u>

Notes on the pages 14 to 25 form an integral part of these statements

The financial statements were approved by the Board of Directors on 11 December 2020 and were signed on its behalf by:



.....
M J Kistler - Director

**Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2019**

	Called up share capital £	Profit & loss account £	Foreign exchange reserve £	Share based compensation £	Total equity £
Balance at 1 January 2018	2,000,000	(290,337)	(314,673)	760,737	2,155,727
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>
Changes in equity					
Loss for the year	-	(7,365,050)	-	-	(7,365,050)
Other comprehensive income	-	-	583,359	150,799	734,158
Balance at 31 December 2019	<u>2,000,000</u>	<u>(9,333,171)</u>	<u>161,890</u>	<u>1,134,473</u>	<u>(6,036,808)</u>

Notes on the pages 14 to 25 form an integral part of these statements

**Company Statement of Changes in Equity
For the Year Ended 31 December 2019**

	Called up share capital £	Profit & loss account £	Foreign exchange reserve £	Share based compensation £	Total equity £
Balance at 1 January 2018	2,000,000	(381,634)	(332,496)	1,218,634	2,504,504
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	<u>2,000,000</u>	<u>(1,673,245)</u>	<u>(423,962)</u>	<u>1,582,117</u>	<u>1,484,910</u>
Changes in equity					
Loss for the year	-	(7,430,934)	-	-	(7,430,934)
Other comprehensive income	-	-	231,818	235,741	467,559
Balance at 31 December 2019	<u>2,000,000</u>	<u>(9,104,179)</u>	<u>(192,144)</u>	<u>1,817,858</u>	<u>(5,478,465)</u>

Notes on the pages 14 to 25 form an integral part of these statements

**Consolidated Cash Flow Statement
for the Year Ended 31 December 2019**

	Notes	2019 £	2018 £
Cash flows from operating activities			
Cash (absorbed by)/generated from operations	20	(5,066,902)	2,267,660
Taxes (paid)/refunded		<u>925,222</u>	<u>(971,666)</u>
Net cash (absorbed by)/generated from operating activities		<u>(4,141,680)</u>	<u>1,295,994</u>
Cash flows from investing activities			
Purchase of tangible fixed assets		(205,346)	(285,841)
Disposal of tangible fixed assets		41,829	41,288
Increase in investments		2,163	-
Interest and other income received		<u>106,190</u>	<u>66,518</u>
Net cash absorbed by investing activities		<u>(55,164)</u>	<u>(178,035)</u>
(Decrease)/increase in cash and cash equivalents		(4,196,844)	1,117,959
Cash and cash equivalents at beginning of year	21	<u>12,292,811</u>	<u>11,174,852</u>
Cash and cash equivalents at end of year	21	<u><u>8,095,967</u></u>	<u><u>12,292,811</u></u>

Notes on the pages 14 to 25 form an integral part of these statements

**Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2019**

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 are 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 2019. 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 £7,365,050 (2018: loss of £1,677,784). At the balance sheet date, it held net liabilities of £6,325,747 (2018: Net assets £294,989)

The Directors have prepared a forecast for 12 months from the date of approvals of these financial statements on which basis they believe the company has adequate resources to continue in operational existence through at least the forecasted period including FY20 and FY21. The company's forecasts and projections show that the company should be able to continue to operate as a going concern. A significant part of FY19 losses related to foreign exchange losses, which is no longer the case in FY20. In FY20, the company renegotiated a number of key publisher contracts as part of its response to the changing environment of COVID-19 which significantly improved its gross margin. This together with an increased demand for online marketing has resulted in FY20 exceeding budget, expected to be profitable for the full year and the company is on track to meet its FY21 forecast.

In preparing these forecasts, the impact of COVID-19 has been considered. As explained in the Strategic Report, the Directors are satisfied that the COVID-19 impact on the Company has been and will continue to be manageable. The company has exceeded its FY20 budget and continues to monitor its creditors and liabilities. As of December 2020, the company has sufficient cash in bank, which together with its forecasted cash flows will allow it to meet its obligations for a minimum of 12 month from the date of the approval of these financial statements.

Accordingly, the company continues 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.

**Notes to the Consolidated Financial Statements
for the Year Ended 31 December 2019**

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

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:

	2019	2018
	£	£
United Kingdom	4,747,127	12,084,165
Europe	129,410,648	102,610,148
United States of America	294,480	1,089,902
Rest of World	2,114,508	670,352
	<u>136,566,763</u>	<u>116,454,567</u>

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

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

3. **Staff costs**

	2019	2018
	£	£
Wages and salaries	12,464,805	19,044,167
Social security costs	1,675,464	1,494,323
Other pension costs	355,912	300,113
	<u>14,496,181</u>	<u>20,838,603</u>

The cost of contributions of the defined contribution schemes for the year was £355,912 (2018: £300,113). Pension contribution costs accrued, but not paid at the end of the year amounted to £36,249 (2018: £33,145).

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

	2019	2018
General and administrative	22	18
Sales and marketing	<u>113</u>	<u>108</u>
Total average employees	<u>135</u>	<u>126</u>

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 (2018 – nil).

5. **Operating loss**

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

	2019	2018
	£	£
Other operating leases	538,896	597,117
Depreciation - owned assets	169,358	149,523
(Gain)/Loss on disposal of fixed assets	(4,672)	13,511
Auditor's remuneration	59,356	51,245
Share based payment compensation	151,132	237,865
Net foreign exchange loss/(gain)	<u>3,690,017</u>	<u>(2,956,684)</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

6. Taxation

Analysis of the tax (credit)/charge:

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

	2019 £	2018 £
Current Tax		
UK corporation tax	-	-
Adjustments in respect of prior periods	(469,605)	374,078
Foreign corporation tax	403,711	548,829
	<u>(65,894)</u>	<u>922,907</u>
Deferred Tax		
Origination and reversal of timing differences	365,852	(57,866)
Adjustments in respect of prior periods	25,380	386,432
Impact of change of tax rates	19,178	28,284
	<u>410,410</u>	<u>356,850</u>
Total current tax	<u>344,516</u>	<u>1,279,757</u>

The tax assessed on the profits for the period is higher (2018: higher) as the standard rate of corporation tax in the UK of 19% (2018: 19.25%). The differences are explained below:

	2019 £	2018 £
Loss on activities before tax	<u>(7,020,534)</u>	<u>(398,027)</u>
Income tax at the UK tax rate of 19% (2018: 19.25%)	(1,333,902)	(76,620)
Non-deductible expenses	130,804	32,867
Permanent differences to reserves	-	-
Foreign tax	335,758	531,066
Difference in foreign tax rates	(21,587)	(721)
Change in tax rate – deferred tax	19,178	28,284
Unrecognised deferred tax	1,590,538	-
Adjustments to tax in respect of prior years	<u>(376,273)</u>	<u>764,881</u>
Tax on loss on ordinary activities	<u>344,516</u>	<u>1,279,757</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 £5,420,725 (2018: £1,291,311).

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

8. Tangible fixed assets

Group	Improvements to property £	Fixtures and fittings £	Computer equipment £	Totals £
Cost				
At 1 January 2019	148,629	204,231	456,559	809,419
Additions	40,372	9,119	155,855	205,346
Disposals	-	-	(187,384)	(187,384)
Exchange differences	(1,998)	(8,583)	(12,714)	(23,295)
At 31 December 2019	<u>187,003</u>	<u>204,767</u>	<u>412,316</u>	<u>804,086</u>
Depreciation				
At 1 January 2019	28,607	140,987	343,747	513,341
Charge for year	34,631	23,907	108,725	167,263
Eliminated on disposal	-	-	(150,225)	(150,225)
Exchange differences	(496)	(5,941)	(7,941)	(14,378)
At 31 December 2019	<u>62,742</u>	<u>158,953</u>	<u>294,306</u>	<u>516,001</u>
Net book value				
At 31 December 2019	<u>124,261</u>	<u>45,814</u>	<u>118,010</u>	<u>288,085</u>
At 31 December 2018	<u>120,022</u>	<u>63,244</u>	<u>112,812</u>	<u>296,078</u>
Company				
	Improvements to property £	Fixtures and fittings £	Computer equipment £	Totals £
Cost				
At 1 January 2019	141,514	172,112	396,407	710,033
Additions	29,648	4,023	147,838	181,509
Disposals	-	-	(186,786)	(186,786)
Exchange differences	(1,637)	(6,951)	(9,663)	(18,251)
At 31 December 2019	<u>169,525</u>	<u>169,184</u>	<u>347,796</u>	<u>686,505</u>
Depreciation				
At 1 January 2019	27,362	136,571	319,985	483,918
Charge for year	31,841	18,289	89,959	140,089
Eliminated on disposal	-	-	(149,628)	(149,628)
Exchange differences	(433)	(5,717)	(6,734)	(12,884)
At 31 December 2019	<u>58,770</u>	<u>149,143</u>	<u>253,582</u>	<u>461,495</u>
Net book value				
At 31 December 2019	<u>110,755</u>	<u>20,041</u>	<u>94,214</u>	<u>225,010</u>
At 31 December 2018	<u>114,152</u>	<u>35,541</u>	<u>76,422</u>	<u>226,115</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

9. Fixed asset investments
Group

	Unlisted investments £
Cost	
At 1 January 2019	3,017
Additions	(2,163)
At 31 December 2019	<u>854</u>
Net book value	
At 31 December 2019	<u>854</u>
At 31 December 2018	<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 2019	969,142
Additions	117,474
At 31 December 2019	<u>1,086,616</u>
Net book value	
At 31 December 2019	<u>1,086,616</u>
At 31 December 2018	<u>969,142</u>

Outbrain UK Limited holds a 100% share in Outbrain Sweden AB, a company incorporated in Sweden and registered at Eriksbsbergsgatan 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.

Outbrain UK Limited hold a 100% share in Outbrain Germany GmbH., a company incorporated in Germany and registered at Oberanger 28, 80331, Munich, Germany.

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 2019

10. Debtors

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	35,241,808	27,324,704	35,241,808	27,324,704
Amounts owed by parent	1,712,007	812,583	1,712,007	812,583
Other debtors	209,150	197,588	209,150	197,588
Prepayments	859,704	180,310	841,671	141,129
VAT	718,695	-	632,595	-
Corporation Tax	757,334	-	761,815	-
	<u>39,498,698</u>	<u>28,515,185</u>	<u>39,399,046</u>	<u>28,476,004</u>
Amounts falling due after more than one year:				
Deferred tax asset	43,495	456,233	-	410,410
Other debtors	<u>406,278</u>	<u>173,488</u>	<u>375,213</u>	<u>140,760</u>
Aggregate amounts	<u>39,948,471</u>	<u>29,144,906</u>	<u>39,774,259</u>	<u>29,027,174</u>

Deferred Tax Asset

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Deferred tax	<u>43,495</u>	<u>456,233</u>	<u>-</u>	<u>410,410</u>

A deferred tax asset of £1,590,538 (2018: £456,233), relating to losses, has been recorded but not recognised due to uncertainties over future profits.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was subsequently enacted on 6 September 2016 and the deferred tax asset recognised at 31 December 2019 has been calculated based on this rate. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This may increase the Company's future tax charge accordingly.

11. Creditors: amounts falling due within one year

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Trade creditors	12,719,413	8,915,091	12,647,450	8,904,904
Amounts owed to parent	13,453,767	7,410,535	13,833,848	7,422,965
Corporation tax	-	99,667	-	79,186
Social security and other taxes	316,619	397,768	178,947	270,798
Value added tax	-	270,172	-	322,584
Other creditors	875,153	510,333	875,154	510,333
Accruals	<u>27,005,233</u>	<u>23,539,162</u>	<u>26,828,529</u>	<u>23,333,550</u>
	<u>54,370,185</u>	<u>41,142,728</u>	<u>54,363,928</u>	<u>40,844,320</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

12. Operating lease commitments

The following operating lease payments are committed to be paid:

Group

	Leases on property 2019 £	2018 £
Within one year	637,008	647,230
Between one and five years	1,430,784	2,098,403
More than five years	-	-
	<u>2,067,792</u>	<u>2,745,633</u>

Company

	Leases on property 2019 £	2018 £
Within one year	575,517	642,632
Between one and five years	1,415,411	2,098,403
More than five years	-	-
	<u>1,990,928</u>	<u>2,741,035</u>

13.

Called up share capital

Allotted, issued and fully paid:
Number: Class:

	Nominal value:	2019 £	2018 £
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 2019	(1,968,121)	(421,469)	983,674	(1,405,916)
Loss for the year	(7,365,050)	-	-	(7,365,050)
Other reserves	-	583,359	150,799	734,158
At 31 December 2019	<u>(9,333,171)</u>	<u>161,890</u>	<u>1,134,473</u>	<u>(8,036,808)</u>

Company

	Profit and loss account £	Foreign exchange reserve £	Share based compensation reserve £	Totals £
At 1 January 2019	(1,673,245)	(423,962)	1,582,117	(515,090)
Loss for the year	(7,430,934)	-	-	(7,430,934)
Other reserves	-	231,818	235,741	467,559
At 31 December 2019	<u>(9,104,179)</u>	<u>(192,144)</u>	<u>1,817,858</u>	<u>(7,478,465)</u>

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

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 and controlling party. 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

The aggregate value of related party transactions during the year are as follows:

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
<i>Net receivables invoiced to customers on behalf of:</i>				
Outbrain Inc	17,573,952	16,620,680	17,573,952	16,620,680
Outbrain Japan KK	-	90,078	-	90,078
<i>Net payables invoiced to customers on behalf of:</i>				
Ligatus GmbH	11,122,313	-	11,122,313	-
Outbrain Services Monetização de Conteúdo Ltda	263,612	444,845	263,612	444,845
Outbrain Japan KK	321,624	-	321,624	-
<i>Cost allocated from parent company:</i>				
Outbrain Inc	7,753,925	14,628,367	7,753,925	14,628,367
<i>Interest received on inter-company loan:</i>				
Outbrain Inc	104,234	64,285	104,234	64,285
<i>Expenses paid for on behalf of:</i>				
Outbrain Inc	14,072	7,852	14,072	7,852
Ligatus GmbH	593,334	-	582,361	-
Outbrain Services Monetização de Conteúdo Ltda	3,534	4,174	3,534	4,174
Outbrain Singapore Pte. Ltd	-	4,124	-	4,124
Zemanta Holdings	4,242	20,552	4,242	20,552
<i>Charges receivable for the use of IP:</i>				
Ligatus GmbH	2,110,131	-	2,110,131	-
<i>Charges payable for the use of IP:</i>				
Outbrain Inc	3,682,995	5,823,903	3,682,995	5,823,903

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

16. **Related party disclosures - continued**

The aggregate value of related party outstanding debtors/(creditors) at year end are as follows:

	Group 2019 £	Group 2018 £	Company 2019 £	Company 2018 £
Outbrain Inc	(2,855,554)	(6,660,214)	(2,885,554)	(6,660,214)
Ligatus GmbH	(8,418,848)	-	(8,429,821)	-
Outbrain Services Monetização deConteúdo Ltda	(891,455)	(691,799)	(891,455)	(691,799)
Outbrain Israel Ltd	(45,290)	(48,121)	(45,290)	(48,121)
Outbrain Japan KK	458,176	787,238	458,176	787,238
Outbrain Australia PTY Ltd	4,794	4,794	4,794	4,794
Outbrain Singapore Pte. Ltd	(9,893)	(10,363)	(9,893)	(10,363)
Zemanta Holdings	24,794	20,552	24,794	20,552

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 2019

18. Reconciliation of movements in shareholders' funds

Group	2019 £	2018 £
Loss for the financial year	(7,365,050)	(1,677,784)
Share based compensation reserve	150,799	222,937
Foreign exchange reserve	583,359	(106,796)
Net reduction to shareholders' funds	(6,630,892)	(1,561,643)
Opening shareholders' funds	594,084	2,155,727
Closing shareholders' funds	(6,036,808)	594,084
Company	2019 £	2018 £
Loss for the financial year	(7,430,934)	(1,291,611)
Share based compensation reserve	235,741	363,483
Foreign exchange reserve	231,818	(91,466)
Net reduction to shareholders' funds	(6,963,375)	(1,019,594)
Opening shareholders' funds	1,484,910	2,504,504
Closing shareholders' funds	(5,478,465)	1,484,910

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.

136 (2018: 123) employees benefit from the plans. The movements to 31 December 2018 and to 31 December 2019 are shown below:

	Options Number	Outstanding Weighted Average Exercise Price \$
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	1,284,614	\$3.23
Exercisable at 31 December 2018	693,157	\$2.91
	Options Number	Outstanding Weighted Average Exercise Price \$
Outstanding as at 31 December 2018	1,284,614	\$3.23
Granted	100,750	\$0.00
Exercised	-	-
Cancelled	(111,715)	\$4.49
Outstanding as at 31 December 2019	1,278,999	\$2.80
Exercisable at 31 December 2019	801,994	\$1.85

Notes to the Consolidated Financial Statements - continued
for the Year Ended 31 December 2019

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

	2019 £	2018 £
Operating loss	(7,126,724)	(464,545)
Depreciation charges	167,263	150,636
(Gain)/Loss on disposal of fixed assets	(4,671)	13,511
Non-cash foreign exchange movements	8,918	(875)
Increase in share based compensation	150,799	222,937
(Decrease) in foreign currency translation reserve	583,359	(106,796)
Increase in debtors	(11,216,302)	(941,955)
Increase in creditors	12,370,456	3,394,747
Net cash inflow from operating activities	<u>(5,066,902)</u>	<u>2,267,660</u>

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 2019

	2019 £	2018 £
Cash and cash equivalents	<u>8,095,967</u>	<u>12,292,811</u>

Year ended 31 December 2018

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

22. Post balance sheet events

The outbreak of coronavirus (COVID-19) in early 2020 has affected business and economic activity around the world, including countries in which the Company operates. In response to the global pandemic, the Parent Company, Outbrain Inc created a COVID-10 executive task force that has implemented business continuity plans and in particular, managing working capital effectively. Results to date have proven this to be successful. The Company will continue to actively monitor the situation and take further actions as and when necessary. As noted in the Strategic Report as well as in reference to the Company's Going concern position, the Directors are satisfied that the COVID-19 impact on the Company has been and will continue to be manageable. The Company considers the global pandemic to be a non-adjusting post balance sheet event as of 31 December 2019.