

Annual Report

consolidated and standalone
for 2019

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Appendix 4 – Report of the independent auditor on the audit of the standalone financial statements

Dear Shareholders,

The Company's strategy is consistently based on Big Data analysis. Cloud Technologies remains one of the largest providers of anonymous profiles of Internet users that are further used for targeting online advertisements. One of the company's most precious resources is the data set with billions of anonymous profiles that belong to users of desktop computers and mobile devices from almost all over the world. This is the resource that had been created on our own from the beginning to the end, and that is the reason for it not to be included in these financial statements.

Being aware of dynamic changes on the international data market, the company has taken actions to adapt both the business model and structure that temporarily impacted its financial performance. The Company's activity is focused on processing and selling data, while the services of analyzing and distributing are offered by other entities that constitute the Group.

One of the Company's important goals is to diversify the source of revenues and to optimize the business model that, in turn, will make the cash conversion cycle shorter and the business more stable. Therefore, the Company is developing an OnAudience.com Data Alliance program that aims to increase our presence on data market. For the same reason, we have made new investments in the area of the DMP technology (Data Management Platform), as well as the DSP (Demand Side Platform) that can be confirmed by the fully-finalized purchase of a license on software of this kind at the beginning of 2019.

Despite general decrease of financial performance in comparison to previous years, the positive dynamics in the prospective areas of the Company's activity should be emphasized. It confirms that any changes that have been implemented from the beginning of the previous year are relevant. While the pace of those changes may be disappointing, it primarily results from the ongoing adaptation of the market to new legal conditions, including the General Data Protection Regulation. Nonetheless, the entire year was a period of constant investments that strengthen market position of the Group, and that should provide benefits in the future.

I have the pleasure to present to you, the annual report for 2019.

Piotr Prajsnar

Chairman of the Board

Consolidated financial data

Consolidated profit and loss statement

<i>Continued operations</i>	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
		<i>*restated data</i>
Revenues from sales	42 729 422	43 694 236
Operating expenses	46 287 167	42 528 344
Amortisation and depreciation	3 166 740	503 314
Consumption of materials and energy	155 251	196 117
External services	40 966 700	39 982 276
Taxes and charges	102 609	95 617
Payroll	1 185 736	1 091 833
Social security and other benefits	181 316	95 651
Other costs by type	528 815	381 885
Value of goods and materials sold	0	181 651
Profit (loss) on sales	(3 557 745)	1 165 892
Other operating revenues	410 792	198 381
Other operating expenses	1 152 369	1 267 162
Profit (loss) on operating activities	(4 299 322)	97 111
Financial revenues	53 115	1 574 338
Financial expenses	673 272	64 889
Profit (loss) before tax	(4 919 479)	1 606 560
Income tax	(201 774)	742 494
Total net profit (loss) attributable to:	(4 717 705)	864 066
- the owners of the parent company	(4 717 705)	864 066
- the non-controlling interest	0	0
 Net profit (loss) for one share (PLN)		
Basic for the financial period	(1,03)	0,19
Diluted for the financial period	(1,03)	0,19

Consolidated other comprehensive income statement

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Profit (loss) after tax	(4 717 705)	864 066
Other comprehensive income:	887 821	7 921
Items that will be reclassified to profit and loss	887 821	7 921
Exchange differences converted from OnAudience Ltd	887 821	7 921
Total comprehensive income	(3 829 884)	871 987
including attributable to:		
- the owners of the parent company	(3 829 884)	871 987
- the non-controlling interest	0	0

Consolidated statement of financial position

ASSETS	31.12.2019	31.12.2018 *restated data
I. Fixed assets	34 904 566	3 392 981
Intangible assets	31 332 549	574 281
Goodwill	2 526 018	2 526 018
Tangible fixed assets	59 403	117 453
Lease assets	707 048	0
Long-term investments	12 951	0
Deferred tax assets	266 597	175 229
II. Current assets	41 223 504	64 703 239
Trade receivables	25 812 156	43 227 558
Other receivables	6 965 037	4 393 398
Income tax receivables	3 506 693	3 010 953
Short-term investments	4 825 630	13 053 943
Contract assets	56 275	371 000
Short-term prepayments	57 713	646 387
III. Total assets	76 128 070	68 096 220
EQUITY AND LIABILITIES	31.12.2019	31.12.2018 *restated data
I. Total equity	58 739 495	62 577 300
Equity attributable to owners of the Parent Company	58 739 495	62 577 300
Share capital	460 000	460 000
Own shares	(18 000 000)	(18 000 000)
Supplementary capital and other capital	37 694 379	36 830 313
Capital from the valuation of incentive program	24 415 000	24 415 000
Reserve capital	18 000 000	18 000 000
Current net profit (loss)	(4 717 705)	864 066
Exchange differences capital	887 821	7 921
Non-controlling interests	0	0
II. Long-term liabilities and provisions	551 668	223 033
Provision for deferred income tax	56 739	223 033
Long-term lease liabilities	494 929	0
III. Short-term liabilities and provisions	16 836 907	5 295 887
Trade liabilities	6 154 477	4 885 021
Short-term lease liabilities	242 774	0
Other financial liabilities	0	34 179
Other liabilities	90 013	54 391
Deferred revenues	9 230 209	0
Other provisions	1 119 434	322 296
IV. Total equity and liabilities	76 128 070	68 096 220

Consolidated statement of changes in equity

	Share capital	Own shares	Supplementary capital	Share premium	Capital from the valuation of incentive program	Reserve capital	Retained earnings	Exchange differences capital	Current net profit (loss)	Total equity
As of January 1st, 2019	460 000	(18 000 000)	23 093 479	13 685 000	24 415 000	18 000 000	51 834	7 921	864 066	62 577 300
Distribution to retained earnings - other	0	0	0	0	0	0	864 066	0	(864 066)	0
Net profit distribution	0	0	2 107 148	0	0	0	(2 107 148)	0	0	0
Change of the exchange differences capital	0	0	0	0	0	0	0	879 900	0	879 900
Total comprehensive income	0	0	0	0	0	0	0	0	(4 717 705)	(4 717 705)
As of December 31st, 2019	460 000	(18 000 000)	25 200 627	13 685 000	24 415 000	18 000 000	(1 191 248)	887 821	(4 717 705)	58 739 495

	Share capital	Own shares	Supplementary capital	Share premium	Capital from the valuation of incentive program	Reserve capital	Retained earnings	Exchange differences capital	Current net profit (loss)	Total equity
As of January 1st, 2018	460 000	(18 000 000)	25 618 298	13 685 000	24 415 000	18 000 000	(24 415 000)	0	21 942 015	61 705 313
Distribution to retained earnings – incentive program	0	0	(24 415 000)	0	0	0	24 415 000	0	0	0
Distribution to retained earnings - other	0	0	(51 834)	0	0	0	51 834	0	0	0
Net profit distribution	0	0	21 942 015	0	0	0	0	0	(21 942 015)	0
Total comprehensive income	0	0	0	0	0	0	0	7 921	864 066	871 987
As of December 31st, 2018	460 000	(18 000 000)	23 093 479	13 685 000	24 415 000	18 000 000	51 834	7 921	864 066	62 577 300

Consolidated cash flow statement

<i>Value in PLN</i>	Note	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Cash flows from operating activities			
I. Profit before tax		(4 919 479)	1 606 560
II. All adjustments, including:	24	27 135 792	1 563 149
Amortization and depreciation		3 166 740	503 314
Interests and profit sharing (dividend)		28 953	91
Change in provisions		630 844	223 033
Change in receivables		17 641 729	1 382 870
Change in liabilities other than loans		1 777 639	(833 268)
Change in accruals		2 770 240	146 104
Change in liabilities due to the purchase of ZCP ¹		0	308 405
Other adjustments		1 119 647	(92 311)
III. Cash from operating activities		22 216 313	3 169 709
Income tax paid		(3 828 335)	(5 811 612)
IV. Cash flows from operating activities		18 387 978	(2 641 903)
Cash flow from investing activities			
I. Inflows, including		7 279 163	83 214
Disposal of intangible assets and tangible fixed assets		0	75 000
Disposal of financial assets		0	8 214
Repayment of granted, long-term loans		7 163	0
The impact of the grant		7 272 000	
II. Outflows	24	33 454 337	392 699
Acquisition of intangible assets and tangible fixed assets		17 444 337	392 699
Acquisition of a software under the grant		15 980 000	0
Granted loans		30 000	0
III. Net cash flow from operating activities		(26 175 174)	(309 485)
Cash flow from financial activities			
I. Inflows		0	0
II. Outflows		451 861	18 497
Payment of liabilities under lease contracts		422 050	18 406
Interests		29 811	91
III. Net cash flows from financial activities		(451 861)	(18 497)
Net cash flows		(8 239 057)	(2 969 885)
Change in cash and cash equivalents		(8 239 057)	(2 969 885)
Effect of exchange rates difference		(39 913)	459 201
Cash opening balance		13 053 943	16 023 828
Cash closing balance		4 814 886	13 053 943

¹ ZCP is a Polish abbreviation of Zorganizowana Część Przedsiębiorstwa that in English refers to an Organized Part of the Enterprise

Standalone financial data

Standalone profit and loss statement

<i>Continued operations</i>	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Revenues from sales	20 575 591	29 604 812
Operating expenses	21 845 086	28 799 459
Amortization and depreciation	1 036 904	419 566
Consumption of materials and energy	100 930	120 417
External services	19 493 090	27 079 547
Taxes and charges	61 726	43 795
Payroll	927 000	822 589
Social security and other benefits	89 891	49 153
Other costs by type	135 545	264 391
Value of foods and materials sold		0
Profit (loss) on sales	(1 269 495)	805 354
Other operating revenues	805 447	490 808
Other operating expenses	1 243 088	1 203 427
Profit (loss) on operating services	(1 707 136)	92 734
Financial revenues	766 998	1 689 945
Financial expenses	387 264	34 276
Profit (loss) before tax	(1 327 402)	1 748 403
Income tax	(5 521)	569 241
Net profit (loss) on continued operations	(1 321 881)	1 179 162
Net profit (loss) on discontinued operations	0	0
Total net profit (loss)	(1 321 881)	1 179 162
Net profit (loss) for one share (PLN)		
Basic for the financial period	(0.29)	0.26
Diluted for the financial period	(0.29)	0.26

Standalone total income statement

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Results after tax	(1 321 881)	1 179 162
Other total income	0	0
Total income in all	(1 321 881)	1 179 162

Standalone statement of financial position

ASSETS	31.12.2019	31.12.2018
I. Fixed Assets	38 496 377	4 013 215
Intangible assets	16 570 025	574 281
Tangible fixed assets	56 640	102 403
Lease assets	414 972	0
Investments in subsidiary companies	504 997	504 709
Long-term loans granted	20 926 507	2 807 937
Deferred tax assets	23 236	23 805
II. Current assets	32 454 029	59 991 121
Trade receivables	19 751 644	39 969 096
Other receivables	6 211 082	3 762 600
Income tax receivables	3 293 706	3 270 560
Cash and Cash equivalents	3 113 153	12 004 918
Contract assets	54 089	371 000
Short-term prepayments	30 356	612 948
III. Total assets	70 950 406	64 004 336

EQUITY AND LIABILITIES	31.12.2019	31.12.2018
I. Total equity	60 020 456	61 342 337
Share capital	460 000	460 000
Own shares	(18 000 000)	(18 000 000)
Supplementary capital and other capital	36 467 337	35 288 175
Capital from the valuation of incentive program	24 415 000	24 415 000
Reserve capital	18 000 000	18 000 000
Current net profit (loss)	(1 321 881)	1 179 162
II. Long-term liabilities and provisions	431 464	251 040
Provisions for deferred income tax	248 550	251 040
Long-term lease liabilities	182 914	0
III. Short-term liabilities and provisions	10 498 486	2 410 959
Trade liabilities	948 557	2 237 530
Short-term lease liabilities	150 471	0
Other liabilities	75 763	82 316
Deferred revenues	9 230 209	0
Other provisions	93 485	91 113
IV. Total equity and liabilities	70 950 406	64 004 336

Standalone report on changes in equity

	Share capital	Own shares	Supplementary capital	Share premium	Capital from the valuation of incentive program	Reserve capital	Retained earnings	Current net profit (loss)	Total equity
As of January 1st, 2019	460 000	(18 000 000)	21 603 175	13 685 000	24 415 000	18 000 000	0	1 179 162	61 342 337
Net profit distribution	0	0	1 179 162	0	0	0	0	(1 179 162)	(0)
Total comprehensive income	0	0	0	0	0	0	0	(1 321 881)	(1 321 881)
As of December 31st, 2019	460 000	(18 000 000)	22 782 337	13 685 000	24 415 000	18 000 000	0	(1 321 881)	60 020 456

	Share capital	Own shares	Supplementary capital	Share premium	Capital from the valuation of incentive program	Reserve capital	Retained earnings	Current net profit (loss)	Total equity
As of January 1st, 2018	460 000	(18 000 000)	25 153 786	13 685 000	24 415 000	18 000 000	(24 415 000)	20 864 389	60 163 175
Net profit distribution	0	0	(3 550 611)	0	0	0	24 415 000	(20 864 389)	0
Total comprehensive income	0	0	0	0	0	0	0	1 179 162	1 179 162
As of December 31st, 2018	460 000	(18 000 000)	21 603 175	13 685 000	24 415 000	18 000 000	0	1 179 162	61 342 337

Standalone cash flow statement

<i>Value in PLN</i>	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Cash flows from operating activities		
I. Profit before tax	(1 327 402)	1 748 403
II. All adjustments, including:	30 179 947	1 758 236
Amortization and depreciation	1 036 904	419 566
Interests and profit sharing (dividend)	(710 716)	91
Change in provisions	(208)	(75 089)
Change in receivables	(118)	247 478
Change in liabilities other than loans	21 039 528	2 588 030
Change in accruals	(1 261 347)	(1 573 671)
Change in liabilities due to the purchase of ZCP ²	10 130 282	443 033
Other adjustments	(54 378)	(291 203)
III. Cash from operating activities	28 852 545	3 506 639
Income tax paid	(3 293 706)	(5 456 042)
IV. Net cash flows from operating activities	25 558 839	(1 949 403)
Cash flows from investing activities		
I. Inflows – disposal of fixed assets	0	75 000
II. Outflows	34 071 598	800 989
Purchase of intangible assets and tangible fixed assets	16 703 848	57 393
including expenses on software under grant	16 651 723	0
Granted loans	17 367 750	743 597
III. Net cash flow from operating activities	(34 071 598)	(725 989)
Cash flow from financial activities		
I. Inflows	0	0
II. Outflows	379 006	18 497
Payment of liabilities under lease contracts	366 577	18 406
Interests	12 429	91
III. Net cash flows from financial activities	(379 006)	(18 497)
Net cash flows	(8 891 765)	(2 693 889)
Change in cash and cash equivalents	(8 891 765)	(2 693 889)
Effect of exchange rates difference	(35 972)	445 254
Cash opening balance	12 004 918	14 698 808
Cash closing balance	3 113 153	12 004 918

² ZCP is a Polish abbreviation of Zorganizowana Część Przedsiębiorstwa that in English refers to an Organized Part of the Enterprise

Report of the Board of Directors on activities in 2019

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Introduction

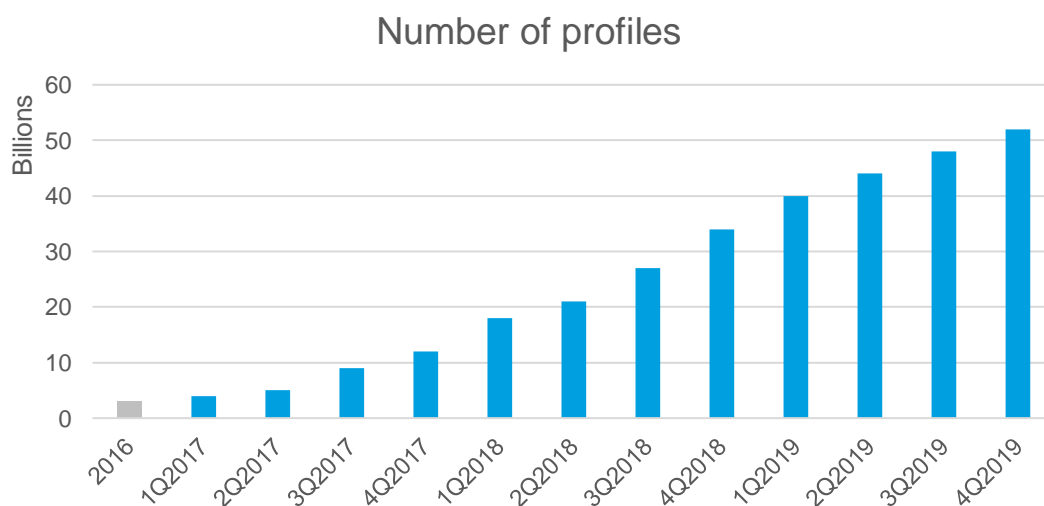
The Group provides services based on Big Data. The key resource having the greatest impact on its activities are sets of processed data that can be described in terms of the number of data, as well as geographic range.

Currently, the Company processes over 52 billions of anonymous profiles of online users³ using desktop computers and mobile devices. The data is collected from over 200 countries and territories with the EU and the USA markets being essential for the Company's activity.

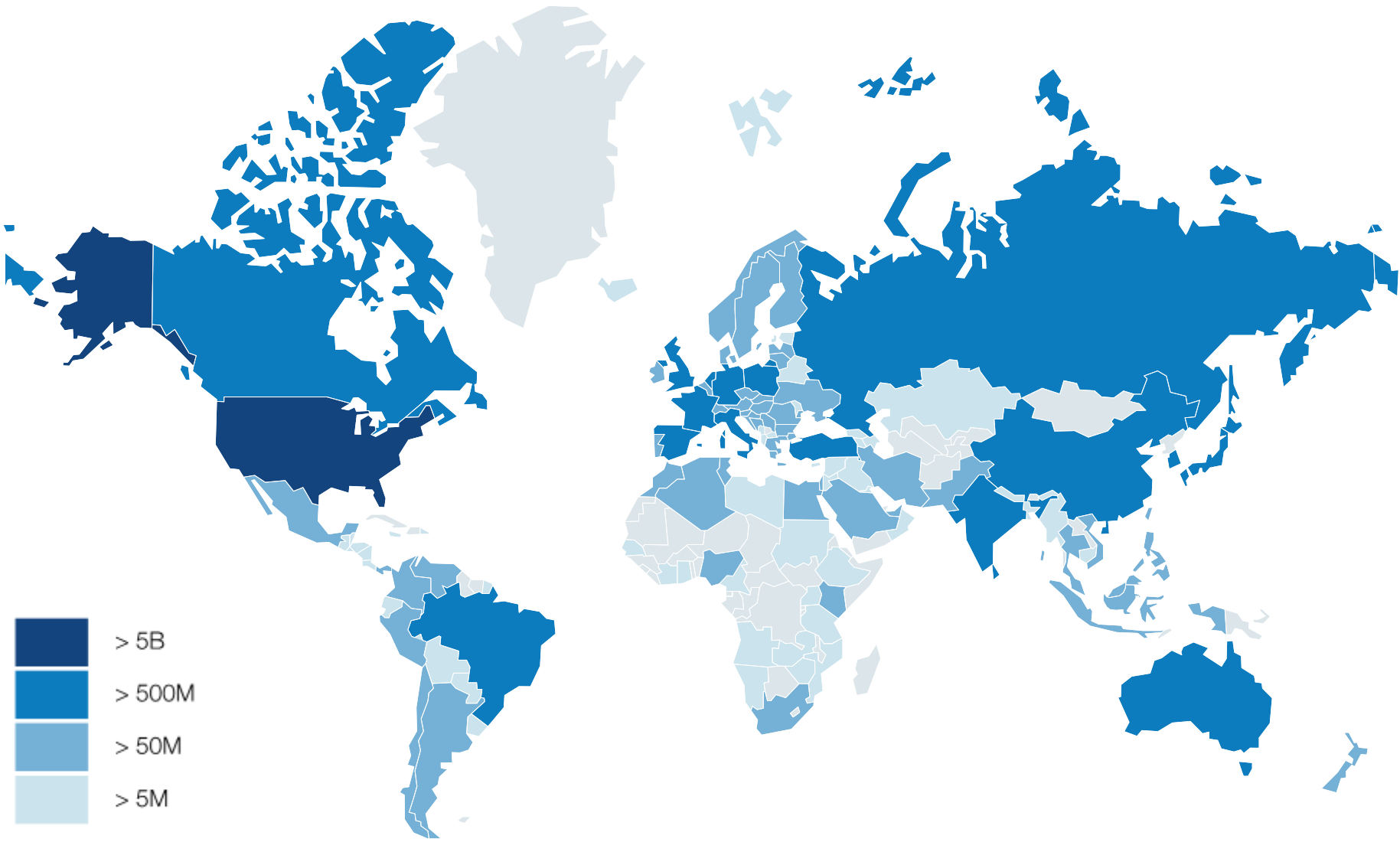
The amount of data has an impact on the scale of the provided services and, therefore, it affects the value of sales revenues. The basic criterium to state the amount of data is a number of profiles correlated to a number of devices and not people. Another important criterium is the definition of data that is the amount of information on a given profile.

Geographical range has an impact on the availability of services on individual markets, and at the same time, the base of potential clients. Saturation of individual markets with data, that are profiled users, is also significant.

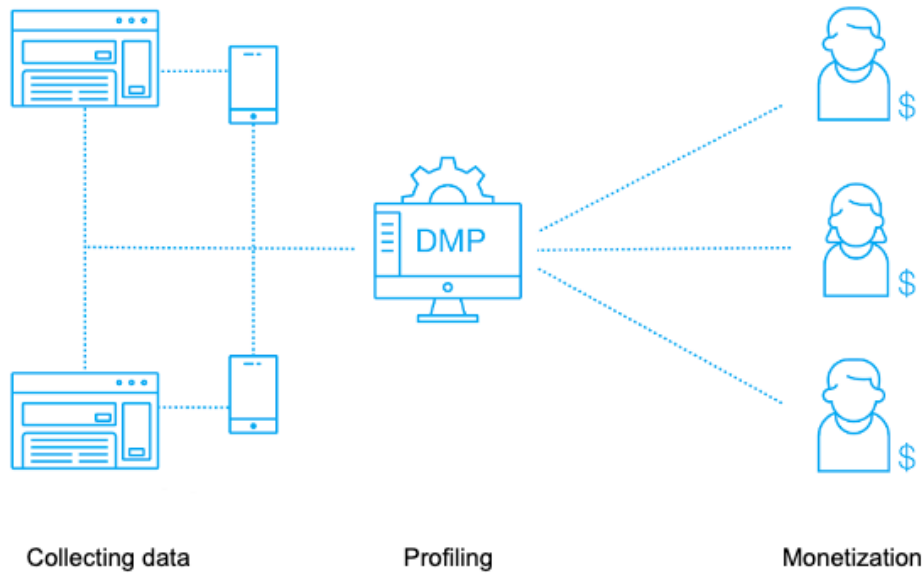
The ability to process raw data and distribution of those processed data has an impact on the efficiency of the data sets. That is why the company created its own technology i.e. Data Management Platform that operates under OnAudience.com brand. The company is systematically expanding sale channels, and that is why new trade relations are being established.



³ **The number of profiles** is the product of the number of users as well as segments to which were classified.



Business model



Collecting data

The first stage is collecting anonymous data about the activity of Internet users based on cookies, mobile identifiers, and similar technologies. The Company obtains data of the following types: 1st party (from own sources), 2nd party (from partners), and 3rd party (from suppliers).

Raw data is collected and, afterwards, it is a subject to a multi-stage analysis with the use of statistical methods and machine learning. The Company employs its own technologies that aim to use the whole potential hidden in the acquired data.

Data profiling

The second stage is data profiling. It aims to identify valuable information and then create anonymous profiles of users. Every user can be described with the help of even a few thousand of features that are regularly updated.

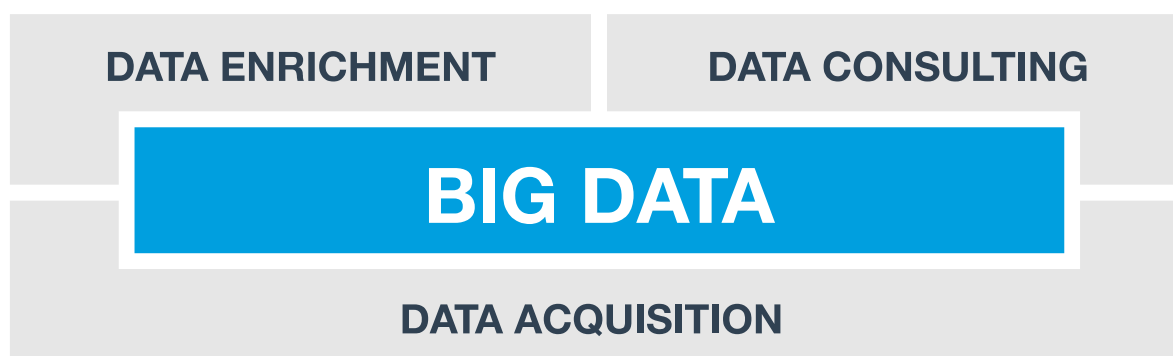
Profiling is aimed at classifying the user to appropriate segments, catalog of which is called a taxonomy. In this form, the data is prepared for further distribution and can be transferred to technological partners.

Data monetization

The third stage is commercial use of the processed data in areas of the Group's activities.

Segments of activity

In connection with significant organizational changes, division of company's operating segments has been updated. It allows a better understanding of the business and changes that take place in it. Detailed information on the operating segments along with corresponding financial data can be found in the appendix.



Data acquisition

Activity leading to acquiring anonymous data about Internet users, which are used in other segments of the Group's activities. Revenues in this segment come mainly from advertising campaigns run for affiliate networks and from brokerage of advertising space. A characteristic feature of this business segment is high turnover on the purchase of advertising space and relatively small margin.

Data consulting

Service activities with the use of anonymous data about Internet users and own technology. The provided services include especially the implementation of precisely targeted online advertising campaigns. The main clients of those services are advertising agencies as well as direct clients, mostly from the B2C segment.

Data enrichment

Activity of enriching digital information by selling anonymous data about Internet users and selling licenses for own DMP technology (Data Management Platform). Data is sold on global market and it is mostly distributed via DSP systems (Demand Side Platform).

Description of activity

Mission

The Company provides services based on Data and has one of the largest Data Management Platforms that processes anonymous profiles of Internet users from all around the world. For this purpose, it develops its own technologies based on Cloud Computing and employing methods of Machine Learning.

The Company has unique competences in the scope of optimizing advertising campaigns with the use of automatic media buying (Programmatic Buying, Real-Time Bidding). This activity connected to digital advertising allows the Company to acquire raw data and monetize the processed data.

Vision

The Company pursues a global strategy that is based on the analysis of Big Data. Among the Company's services, there are technologies employing methods of Machine Learning, and using elements of Internet of Things. The Company continues investment activities focused on markets with a high growth potential and thus systematically accumulates value for shareholders.

The position of market leader based on innovative technologies allows the company to act as a consolidation center. Consistent increase in the scale of operations with the use of synergy effect enables the Company to develop dynamically, which is the source of permanent competitive advantage.

Outline of strategic objectives

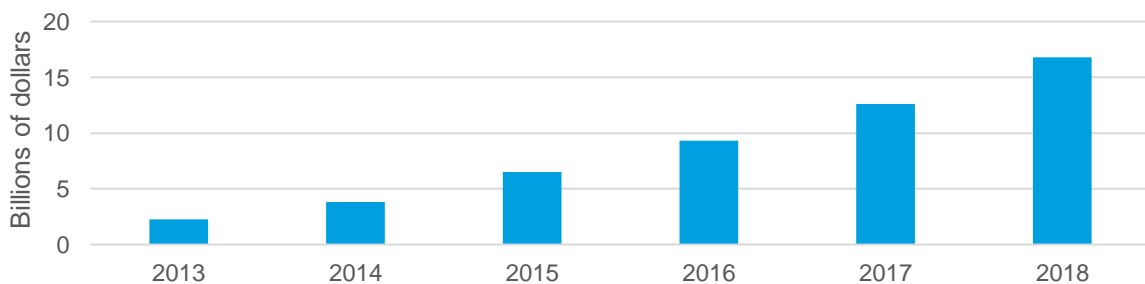
- 1. Globalization of innovative products and services, including:**
 - a. technologies based on Big Data,
 - b. technologies of Programmatic Buying.
- 2. Diversification of the portfolio of products and services, including:**
 - a. Methods of Machine Learning
 - b. Elements of Internet of Things

Digital advertising market

Programmatic Buying is a method of automatic media buying that, in particular, enables personalization of the advertised messages. Among advantages of this model there is the possibility to reach a wider group of users by employing standardized methods measuring statistics. Therefore, media buying systems based on RTB technology (Real-Time Bidding) are becoming more and more important. To optimize advertising campaign, they use external sources of data about Internet users. Desired emission parameters are determined on their basis. Those parameters have a crucial impact on the effectiveness of advertising campaigns.

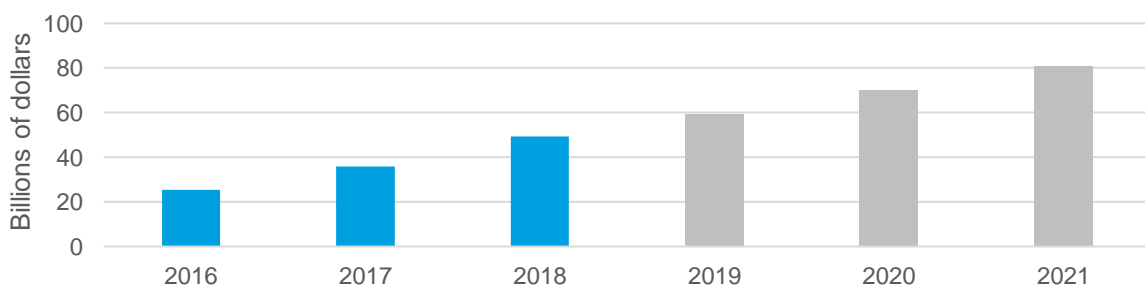
eMarketer estimates that in 2021 87.5% of US digital display advertising expenses will be implemented in the Programmatic Buying model. Moreover, IAB can observe similar trends in the EU and expects a dynamic development of the key markets. AdExchanger, on the other hand, predicts that in a long-time perspective, the value of external data will stabilize at the level of 20% of the value of media used for advertising campaigns emission.

Value of Programmatic Buying market in the EU



Source: IAB

Value of Programmatic Buying market in the USA



Source: eMarketer; gray – estimated data

Data in digital advertising

Along with the automation of media buying, the demand for data enabling targeting of digital advertising is increasing. An appropriate choice of a target group is crucial for the effectiveness of advertising campaigns run on the Internet.

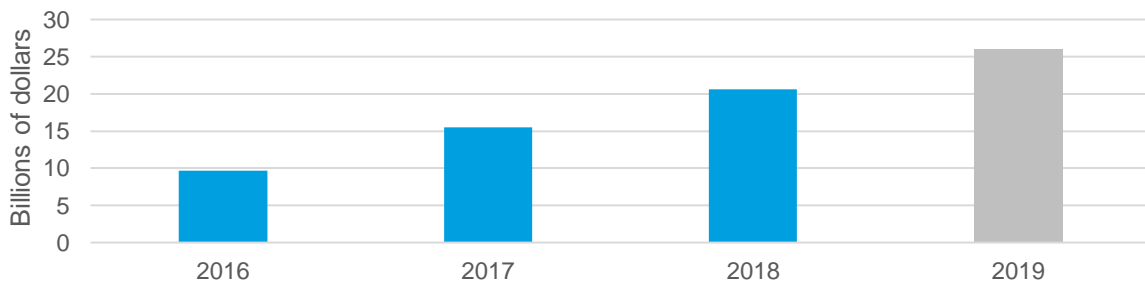
Processing data used in digital advertising is possible due to DMP technology (Data Management Platform). It enables the exchange of data in RTB ecosystem (Real-Time Bidding) and ensures the protection of user's anonymity.

On the grounds of the source of data used in digital advertising, it can be divided into:

1. **1st party data** that is data owned by an advertiser
2. **2nd party data** that is data acquired from partners
3. **3rd party data** that is data acquired from external sources

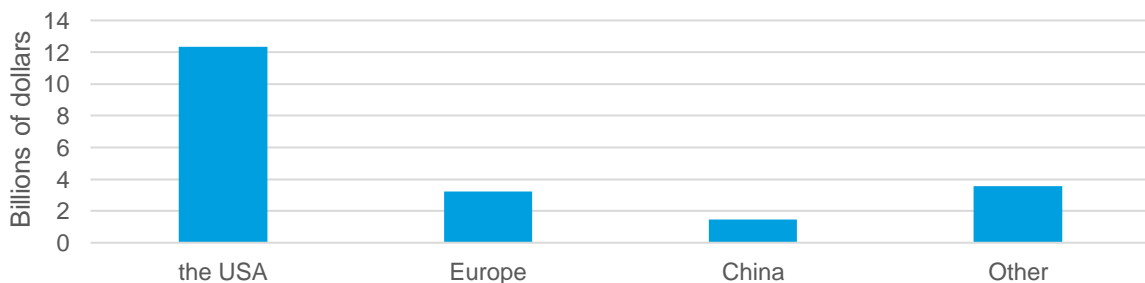
The Company is one of the largest data providers in the world in the 3rd party data segment.

Value of the global data market



Source: OnAudience.com; gray – estimated data

The world's largest data markets in 2018



Source: OnAudience.com

Market trends concerning the Group's activity

Services provided by the Group are all Internet based. Further popularization of the network is crucial for the future development of the Group. From the Group's point of view, the following main trends influencing target markets or the Group's development prospects can be distinguished:

(a) Increase in the number of Internet users

In terms of the users' number, since the end of the last century, there has been a constant increase in the number of people who are actively using Internet. According to *Internetworldstats.com*⁴, despite annual increase in the number of Internet users, the general global penetration at the end of 2019 was only 58.7% and, therefore, future increase in the number of Internet users should be expected. Popularization of mobile devices that allow people to access the Internet in almost any place will support this process.

(b) Increase in the amount of processed data

The amount of processed data is another factor that evidence the Internet development. According to IDC⁵ data, by 2025, the amount of processed data will increase to 175 zettabytes, that is by 61% compared to 2018.

Popularization of the *Internet of Things* concept that assumes the possibility of gathering, processing, and exchanging data within devices connected to the Internet should also be a factor that impacts the increase in the volume of generated data. IDC estimates that the number of IoT devices connected to the Internet in 2015 will reach 41.6 billion and that they will generate 79.4 zettabytes of data⁶.

According to the Group, the main engine of the global digital data market is the marketing industry. Data on Internet users' preferences allow sellers to reduce advertising expenses and, at the same time, they increase the effectiveness of their campaigns. The demand for data also results from quick digitization of companies - many of them change their operating model to the so-called data-driven business.

(c) Development of the digital advertising market

The marketing and advertising markets have been exposed to significant changes over the last decade. The number of tools and methods of reaching clients through online channels has increased substantially, and along with the development of the Internet, this trend is expected to be present in the future.

⁴ *Internet World Stats*, <https://www.internetworldstats.com/stats.htm>.

⁵ <https://www.forbes.com/sites/tomcoughlin/2018/11/27/175-zettabytes-by-2025/#4bf20b4c5459>
<https://www.seagate.com/files/www-content/our-story/trends/files/idc-seagate-dataage-whitepaper.pdf>

⁶ <https://www.idc.com/getdoc.jsp?containerId=prUS45213219>

Magna Global⁷ estimates that global advertising revenues in 2019 increased by 5.2% and reached USD 596 billion. Moreover, digital advertising recorded an increase by 17% and its value in 2018 was USD 251 billion. According to Magna Global, digital advertising in 2019 had a dominant position in the market share, overtaking TV advertising. The share of the digital advertising reached 51.55%.

Digital advertising market in 2019 increased by 15%. Digital advertising is expected to increase in popularity annually.

(a) Development of the e-commerce market

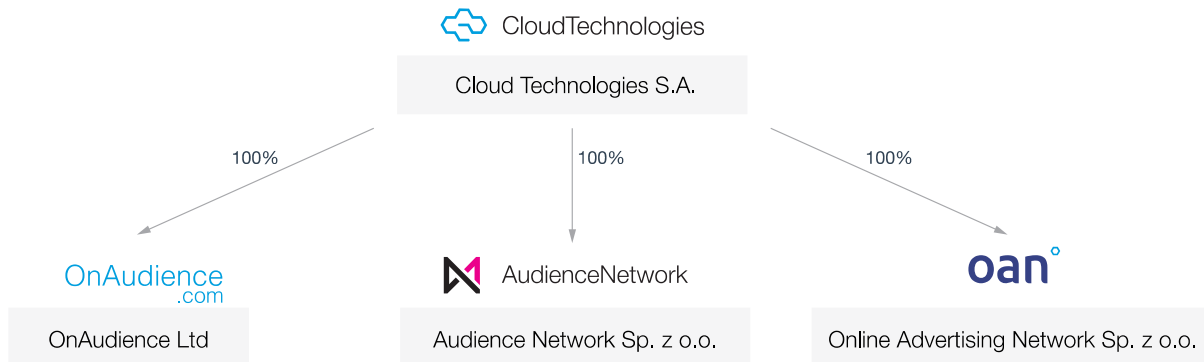
Both the Polish and global e-commerce markets are developing at a very quick pace. Online stores gain competitive advantages due to the employment of the latest technologies in the scope of acquiring clients and due to the improvement of processes related to products delivery. Stable increase in the share of online sales in total retail sales can be observed, as a result of which a demand for digital marketing services is increasing ('following' the client and its activities). According to eMarketer, global e-commerce sales will reach the value of USD 4.2 trillion in 2020. This means that e-commerce expenses will reach 16.1% of retail sales in total. In 2023, it will be as much as 22%.

eMarketer estimates that by 2023 global e-commerce sales will reach USD 6.5 trillion and it will be characterized by double-digit, at least 15% growth dynamic.

⁷ <https://magnaglobal.com/magna-advertising-forecasts-winter-2019-update/>

Group overview

Organizational structure



Characteristics of the entities

Audience Network Sp. z o.o. provides services in the scope of data consulting and it specializes in precisely targeted digital advertising. The entity was established in 2014 by people with many years of experience in digital advertising and unique competences in the scope of commercial usage of products as well as services provided by the Group.

Online Advertising Network Sp. z o.o. provides services in the scope of digital advertising and it specializes in data monetization. The entity was established in 2017 to purchase an organized part of the OAN Sp. z o.o. company. However, currently the company is developing its activities on digital advertising market based on products and services provided by the Group.

OnAudience Ltd was established to develop international activities in the scope of distribution of data-based products. The entity operating under British law allows a proper branding on specific markets and thus it has a positive impact on cooperation with foreign clients. The Company was established in 2016, however, it started operating in 2018 and, due to its strategic features, it began to play a crucial business role in the structure of the Group.

Overview of significant developments in 2019

The Company has established cooperation with new partners for the OnAudience.com Data Alliance program. Its aims to expand the network of acquiring and distributing data. Among the key assumptions of the program is to strengthen the cooperation with local partners as well as with international clients.

The Company accomplished further technological integrations with global data distributor and started the process of selling data. Due to the characteristics of this market segment, reaching the targeted financial parameters with those new clients can last even up to several months.

The Company is monitoring changes in law (inter alia GDPR, CCPA), especially those concerning the EU and the USA, as well as systematically adjusts its activity to the changing market environment. The Company is one of the first signatories of the Code for Good Practices of Programmatic Advertising (polish: Kodeks Dobrych Praktyk Reklamy Programmatic) developed by IAB Polska, and is a member of Transparency & Consent Framework as part of IAB Europe.

The Company is monitoring technological changes (inter alia ITP, ETP), especially those concerning the handling of cookies and similar technologies, as well as it is systematically adjusting its activity to the changing market environment. The Company is following recommendations of browser developers and it has introduced the SameSite attribute required by Google at the beginning of this year.

In line with the schedule, the Company completed the 'Introduction of the results of R&D works by Cloud Technologies S.A.' (polish: 'Wdrożenie wyników prac B+R przez firmę Cloud Technologies S.A.') as a part of sub-measure 3.2.1. Research for the market of the Intelligent Development Operational Program 2014 – 2020 (polish: Program Operacyjny Inteligentny Rozwój 2014 – 2020.). The project's assumption is to commercialize a safe method of broadcasting digital advertisements, and it was executed in the period from 1 July 2018 to 31 December 2019. The total cost of the project was estimated to reach PLN 15,945,000 + VAT, and the amount of the granted funding eventually reached PLN 9,504,000.

Subsidiary company Audience Network Sp. z o.o., in line with the schedule, is currently executing a project called 'Implementing of a new technology – OnAudience Big Data Analytics Platform (polish: 'Wdrożenie nowej technologii – OnAudience Big Data Analytics Platform') as a part of sub-measure 3.2.2 Loan on innovative technologies of the Intelligent Development Operational Program 2014 – 2020. The project's assumption is to create a platform that automates data management in digital advertising and is to be implemented by 30 November 2020. The total cost of the project was estimated to reach PLN 9,054,000 + VAT, and the amount of the granted funds reaches PLN 5,128,800.

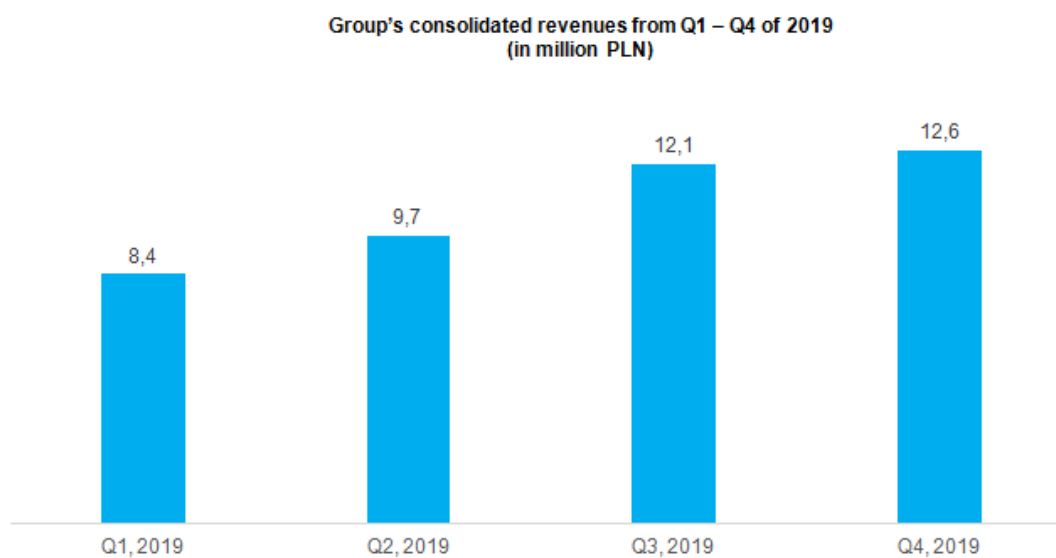
On 16 January 2019, subsidiary company OnAudience Ltd signed an agreement on the purchase of a DSP platform that enables automatic purchase of advertising space. The agreed price of

PLN 15.5 million is line within external valuation and was fully paid in cash. The purchased license was granted indefinitely and enables using software by the entire Group created by the company. This investment not only protects the interests of the company, but also will enable processing of even more data and allow further international expansion. What is more, as a result of this investment, the company gained the opportunity to develop new products and services applying artificial intelligence.

The crucial factor influencing the financial results in 2019 was Company's conscious policy that aims to diversify sources of revenues and adapt its business model to the needs of the dynamically developing international data market.

Commentary on the financial results

In 2019, the Group's consolidated revenues from sale of services amounted to PLN 42.7 million, compared to PLN 43.5 million in the previous year, thus the Group recorded a decrease in sales by PLN 0.8 million (-2%) year-on-year. The Group's quarterly revenues from sales of services for 2019 are presented below:



The quarterly sales structure was characterized by a relatively typical digital advertising market seasonality (Q1 is the lowest, the highest revenues were generated in Q4). Only the difference between sales in Q2 and Q3 was unusual (typically, the difference between those periods is not that significant).

The Parent Company's standalone revenues for 2019 were PLN 20.6 million (compared to PLN 29.6 million in 2018, a decrease by 31%).

The decrease of revenues in 2019 was significantly lower than the decrease noted in 2018 if compared to 2017. However, much greater changes occurred in the structure of Group's clients. There has been a further reduction in cooperation with historically the most important group of clients that are affiliate networks (that accounted for 35% of the Group's sales, compared to 47% in 2018). Campaigns ran through affiliate networks are becoming a source of data that are subsequently monetized in next segments of the activity. Group focused on selling data and technology as the strategically best way for future development. Sales to this group are dynamically growing and should translate into increasing revenues also in following quarters (in 2018, this segment was responsible for 12% of all sales, in 2019 it constituted 17% of the revenues). In 2019, sales of strictly advertising nature have been practically on

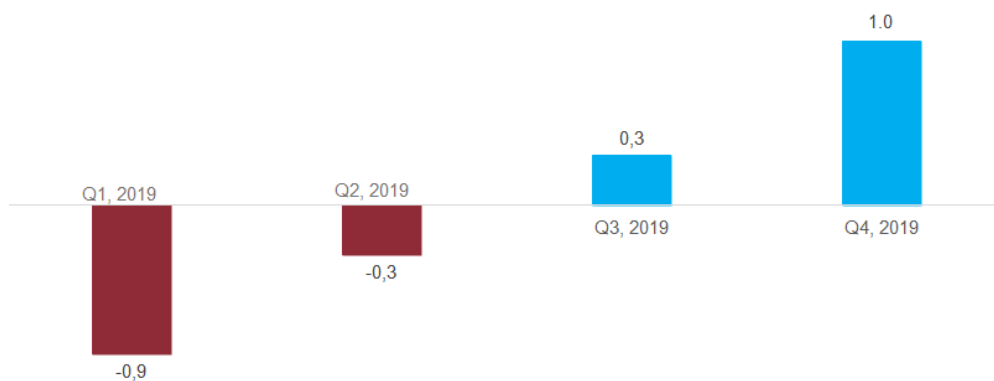
Group's consolidated revenues by groups of clients in the 2018-2019 period (in PLN million)

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Affiliate networks	15,1	20,0
Brokers of advertising spaces	6,1	4,4
Advertising agencies and media agencies	9,1	8,7
Direct customers of advertising services	5,2	5,4
Data and technologies distributors	7,2	5,0
Other clients	0,0	0,1
Total sales	42,7	43,5

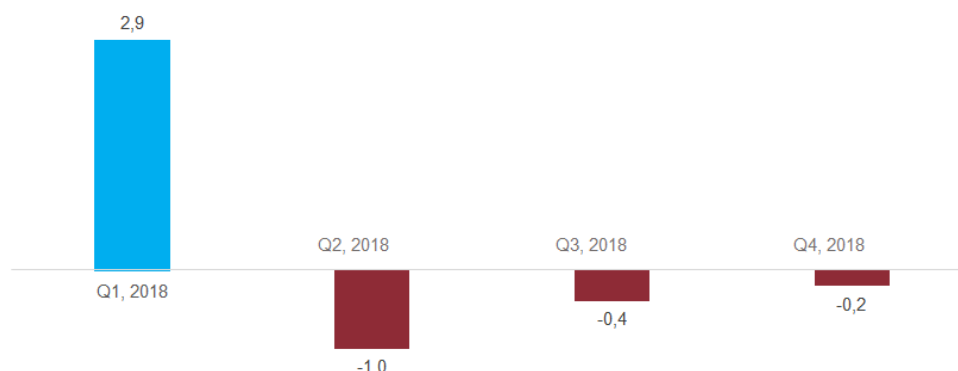
a stable level (sales to agencies and advertising clients directly) if compared to 2018. Sales growth in 2019, however, did not balance the decrease of revenues on affiliate networks.

In 2019, there was a significant decrease in the Group's EBITDA* that was negative PLN 0.4 million in total. The Group achieved a positive EBITDA level in two last quarters of the year. To compare, while in 2018 the Group generated PLN 1.7m total annual EBITDA, there was a positive EBITDA result only in the Q1 of the year.

Consolidated Group's EBITDA* from Q1 2019 – Q4 2019 (in PLN million)



Standalone Group's EBITDA* from Q1 2018 – Q4 2018
(in PLN million)



*EBITDA = profit on sales plus depreciation

The decrease in EBITDA level in 2019, as opposed to 2018, is mainly due to changes in the Group's costs, not revenues (the sales decrease itself was responsible for PLN 0.8 million decrease in EBITDA). The main operating cost of the Group, that is the purchase of advertising space, was higher by PLN 5.5 million than in 2018. This is mainly due to the strategy of creating an international reach and expanding the amount of processed data, as well as an increase on sales to advertising brokers. Increase in media costs should enable an increase in revenues from data monetization in the following periods. Due to the purchase of the DSP license, the Group significantly reduced the costs of software licenses (a decrease of PLN 4.8 million). Additionally, the Group incurred higher personnel expenses than in 2018 (an increase by PLN 1.1 million), mainly due to strengthening the staff, costs incurred by OnAudience LTD in London, as well as costs of adjusting rates to trends on the IT market.

Reconciliation of the 2019 consolidated EBITDA* result with the
2018 result – management conceptualization in PLN million

EBITDA 2018	Decrease in revenues	Increase in media costs	Decrease in software licenses costs	Increase in personal costs	Decrease of other OPEX	EBITDA 2019
2,1	(0,8)	(5,5)	4,8	(1,1)	0,6	0,1

In terms of segments, the effects of Group's reorganization are visible in 2019. As a result of this reorganization, there was a significant increase in the number of intergroup transactions. The parent company – Cloud Technologies – focused on providing resources, technology, an support for the

subsidiary companies that, in turn, focused on external clients. Consequently, the level of revenues before exclusions, as well as only the level of themselves increased significantly.

Results on Group's segments in 2018 and 2019 in PLN million

In PLN million	Data acquisition	Data consulting	Data enrichment	Other	Exclusions	In total
2019						
Revenue	50,7	14,9	12,4	0,0	(35,3)	42,7
EBITDA	0,5	(0,6)	3,1	(3,3)	0,4	0,1
2018						
Revenue	29,2	14,2	5,1	0,1	(5,2)	43,5
EBITDA	2,3	0,9	1,7	(3,3)	0,4	2,1

Reconciliation of the 2019 consolidated EBITDA* result with the 2018 result – segment

EBITDA 2018	Data Acquisition	Data Consulting	Data Enrichment	Exclusions	EBITDA 2019
2.0	(2.2)	(2.0)	2.2	0.1	0.4

Analyzing the change in EBITDA in 2019 compared to 2018, in terms of operating segments, it should be indicated that the *Data acquisition* segment had historically the greatest impact on the EBITDA. Currently, this segment does not play as important role in the Group's operating results. The result of Data consulting segment in 2019 was again worse than in the previous year, mainly due to not a successful start of the fiscal year caused by a temporary weakness on the Polish advertising market. The profitability of the *Data enrichment* segment has improved again: from PLN 1.7 million in 2018 to PLN 3.1 million in 2019. This was possible mainly due to increased data monetization that, with a partially fixed cost base, made it possible to increase the profitability of the business. The impact of the 'other' segment (that includes primarily all general expenses of the Group not attributed to other business activities) was similar in 2019 to the effect from 2018

The Group's assets are comprised of intangible assets, working capital, and available cash. In 2019, the Group recognized significant intangible assets: the value of the DSP platform license and the UnBlock software. The receivables visible in the balance sheet result from long payment terms that, in turn, emerge from market standards as well as a long process of campaigns settlement, mainly for the largest clients that are affiliate networks. Most payments are made in PLN or in foreign currencies. In terms of currency, as well as settlements with clients, EUR/PLN and USD/PLN exchange rates are of the greatest significance, while in terms of intergroup settlements – the GBN/PLN exchange rate.

The main components of the equity and liabilities concern include acquired own shares and to a lesser degree also accounts payables (both trade and tax). The Group has practically no interests bearing debt (except for leases of small value), and no loan liabilities. The granted subsidy is also of significant importance (presented as income of future periods).

As of 31 December 2019, the Group owns PLN 4.8 million available cash.

The Group does not provide forecasts of financial results.

The current financial situation of the Group is stable.

Analysis of key risk factors

Risk arising from the innovative character of services

The group invests in innovative products of high technological complexity. It may encounter of unexpected technical difficulties that in turn can result in prolonging of the project schedule implementation. Additionally, the Group had made significant investment in the previous year to expand its technology and product portfolio, including the purchase of DSP license, completing of the UnBlock software (with the help of subsidy from PARP, i.e. Polish Agency for Enterprise Development), and creating a new version of the DMP platform. As a result of those investments, new significant intangible assets have been recognized. The Group's assumption is that those products and technologies can be commercialized, and that they will become a significant source of income for the company in the future. If the sales level and the profit margin are not satisfying for those products, in the following periods, the Group may be forced to recognize impairments of those assets. Additionally, commissioning new, significant in terms of value, assets increases the level of D&A cost recognized in the income statement that negatively impacts the reported level of the Group's net result.

Risk arising from market's volatility

The Group's activity is associated with a dynamic digital advertising market. It runs the risk of unexpected changes in clients' business models that can significantly influence the way the offered products and services are used.

The Group analyzes market trends to optimize the offered products. The Group is also searching for new market niches with high growth potential.

Risk arising from law changes

The Group's activity is associated with services provided electronically. The Group recognizes a risk of unexpected law changes that can significantly influence the offered technological solutions as well as the conditions of their sale.

The Group analyzes the actions of the legislator to adapt the offered products to changes in the current law principles. The Group undertakes actions to create good practices, but does not have an influence on regulations at the legislative level.

Risk arising from IT systems failure

The Group's activity is dependent on the proper functionality of IT systems. A risk of failures or other circumstances arises that, in turn, can limit the access to technological infrastructure crucial for electronically provided services.

The Group uses technological infrastructure with level of reliability adequate to the expectations of clients and requirements of the legislator. The Group has no influence on force majeure that can cause breaks in the availability of products and services.

Risk arising from currency fluctuation

The Group's services are sold to a significant extent in foreign currencies, while the majority of operating costs are incurred in Polish currency or USD.

The appreciation of the Polish zloty in regard to other currencies can have a negative influence on the level of the margin and, as a result, on the financial results of the Group.

The Group is considering additional protection from currency risk, e.g. by using simple derivatives such as forward type. In addition, the Group tries to apply natural hedging that is to transact with clients in the same currency that the services for those clients are provided.

Risk arising from unstable tax environment

The Group's activity depends on current Polish and British tax system regulations. Instability of tax regulations and constantly changing interpretations of regulations can negatively influence the Group's results in the form of increasing tax burdens.

The Group monitors and analyzes all important changes within the tax environment that impact the Group's activity.

The process of Great Britain leaving the structures of the European Union may have significant importance for the activity of the subsidiary company OnAudience Ltd. As a result of Brexit, tax settlement regime may change between the subsidiary company and other companies in the Group, as well as clients and providers.

Risk arising from new legal regulations, including GDPR, e-Privacy Regulation, and CCPA.

From May 25, 2018, the Group is a subject to obligations under the European Parliament Regulations and the Council (EU) 2016/679 of April 27, 2016 ('GDPR'). Violation of the GDPR may result in administrative fines of up to EUR 20 million or up to 4% of the annual turnover (higher amount applied). In addition, EU institutions are working on a regulatory framework concerning privacy and electronic connection (ePrivacy Regulation) – i.e. a regulation that, to some extent, should complete and expand on GDPR. The purpose of ePrivacy is, among others, to protect internet users from being "followed" by service providers and internet advertisers.

The Group is processing personal data in a very limited scope. The basic activity of the Company is connected with acquiring, analyzing and processing data about online users' behavior that, because of anonymization process, is not personal data. Nonetheless, the Company introduced appropriate procedures to process personal data in a proper and legal manner. Moreover, the Company also monitors the approach of supervisory authorities to the interpretation and applying of the current regulations that have to have an influence on the Group's activity.

At the same time, the Group is monitoring the delaying process of works on the e-Privacy Regulation and designs a possible scope of preparatory works to implement the e-Privacy Regulation, in turn, to be able to cope with the requirements arising from this regulation when it is eventually introduced.

Another factor to impact the Group's activity were the works to ensure the compliance with the California Consumer Privacy Act (CCPA) that was introduced on January 1, 2020. The Group was carefully monitoring this regulation, because many American clients chose it as the regulatory market standard of their activities. Currently, the Group is monitoring works connected with the introduction of adjustments to CCPA.

Aside from the legal regulations mentioned above, another factor impacting the activity of the Group were preparations for Great Britain to leave the European Union. One of the companies – a part of the Group – is a company under British law, therefore, the Group has been actively monitoring preparations for the so-called 'Brexit' in order to adapt to a new legal situation resulting from those events.

Risk arising from irrecoverability of receivable from clients

The most frequently used payment terms are 60 days, however, due to the time-consuming process of settling services for affiliate networks, the term for invoices payment for those clients can be longer than 180 days. Consequently, the prolonging payment dates or full default on payment can result in deterioration of the Group's financial results and can negatively impact its financial liquidity.

To minimize the risk, the Group has been analyzing its trade receivables on a regular basis and, in case if the amount of unpaid receivables reaches a significant sum, the Group will undertake active steps to recover them, e.g. by signing agreements with a client detailing repayment conditions and terms.

If some invoices are not paid within 365 days from the payment date, the Group will recognize a write-off for the full amount of the unpaid invoice or, in case of earlier notice regarding threat of non-payment, the Group will recognize appropriate expected losses in accordance with IFRS 9.

Risk arising from the loss of clients

Due to diversified offer of services, the Group has a significant number of clients of both products and services. Nonetheless, the revenue from one client exceeded 10% of the Group's consolidated sales.

Thus, the loss of a crucial client may negatively influence the Group's activity and its financial results. In order to minimize the risk, the Group strives to engage in a continuous contact with representatives of a given client, ensures high-quality of services, and undertakes active actions to expand the group of clients and to minimize concentration of the Group's sales.

N b Risk arising from the COVID-19 virus

The first effect of the coronavirus pandemic on Polish economy could be observed in March 2020. The Group monitored the influence of COVID-19 on the Group's activity and prospect development. As of now, the Group does not notice any significant impact of the coronavirus pandemic on its activity.

Although there is a chance for an increase in the level of data monetization caused by the pandemic (due to restrictions on movement in many national economies, a large number of consumers spend more time online), some branches that are clients of the Group have significantly reduced their activities practically day by day (tourism, hotels, automotive).

There is a risk that, in case of pandemic persisting for a longer period of time, the Company's prospects in terms of generating revenues may be diminished and thus lead to deterioration of financial results and, eventually, also the Group's liquidity.

Risk arising from blocking the processing of cookies

Leading web browsers are gradually limiting the possibility to use cookies from external suppliers (so-called 3rd party cookies). At the beginning of 2020, Google announced that Chrome will also implement such restrictions within 2 years.

The cookies technology is used, inter alia, to identify devices and, at the same time, it plays a significant role in targeting online campaigns. Professional associations and key players on the advertising market are currently working on developing alternative technologies, but target solutions are not known at this stage. There is a risk that future technological standards will enforce changes by transforming the functionality of products and services provided by the Group or they will even lead to changes in business models on the digital advertising market.

Risk arising from the growing importance of closed advertising systems

There is observed a systematic increase in the importance of closed advertising systems (the so-called Walled Gardens) created, among others, by Google and Facebook. Their increasing role can lead to limitation of technological diversity used on the digital advertising market that, in turn, can lead to limitation in number of potential Group's clients.

Non-compliance with corporate governance principles

Currently, only principle 16 of Good Practices of NewConnect listed companies is not adhered to. The company does not publish monthly reports, since, according to the Board of Directors, the published current and periodic reports are an exhaustive source of knowledge. The company permanently applies the first principle, excluding broadcasting of the general meeting, recording it, and publishing its course on the website. In the assessment of the Board of Directors, all relevant information regarding the general meeting is provided in current reports.

Other information

Unless indicated otherwise, the information presented in the annual report, including data about the capital group, entities, and shareholders are valid at the date of the publication.

Information about the salaries of all members of the Board of Directors as well as the Supervisory Board are presented in note 29 to the standalone financial statement.

Information about the salary of the Authorized Advisor are presented in note 32 to the standalone financial statement.

The company and the subsidiary company Audience Network have a branch in Białystok.

The company does not provide forecasts of financial results.

Statements

The Board of Directors states that, to the best of its knowledge, the annual financial statement as well as the comparative data were prepared in compliance with the current accounting policy and that, in a true, reliable, and clear manner, they reflect the financial position of the company and the Group. Likewise, the Board of Directors states that the report on the issuer's activity presents a true and fair view of the developments, achievements, and situation of the issuer, including the description of the basic threats and risks.

The Board of Directors states that, to the best of their knowledge, the choice of the audit firm conducting the annual review of the consolidated financial statements was made in accordance with all legal principles, including those concerning the choice and procedure for the choice of the audit firm. Both the firm and members of the audit team were able to prepare an unbiased and independent audit report on the annual consolidated financial statement in accordance with all legal principles, their professional standards, and professional ethics.

Board of Directors

Piotr Prajsnar	President of the Board of Directors
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Supervisory Board

Tomasz Zadroga	Chairman of the Supervisory Board
Aleksandra Szweryn-Prajsnar	Member of the Supervisory Board
Łukasz Krasnopolski	Member of the Supervisory Board
Kamil Bargiel	Member of the Supervisory Board
Szymon Okoń	Member of the Supervisory Board

Shareholders

Shareholder	Number of shares	The share in the share capital equal to the votes share at the General Meeting
PERPETUM 10 FIZAN	1,414,666 shares	30.75%
Piotr Prajsnar	1,277,000 shares	27.76%
Oktawian Oźminkowski	240,145 shares	5.22%
Own Shares of Cloud Technologies S.A.	299,400 shares	6.51%
Shareholders with no more than 5% shares	1,368,789 shares	29.76%
Total	4,600,000 shares	100.00%

Piotr Prajsnar, acting in agreement with Aleksandra Szweryn-Prajsnar, holds a total of 1,317,000 shares that constitute 28.63% of the share capital and the same number of votes at the Annual General Meeting.

Registration data

Address of registered office	Cloud Technologies S.A. ul. Żeromskiego 7 05-075 Warszawa
Registration files	Sąd Rejonowy dla m.st. Warszawy w Warszawie XIII Wydział Gospodarczy Krajowego Rejestru Sądowego ul. Czerniakowska 100 00-454 Warszawa
Share capital	460 000 00 zł
National Court Register (KRS)	0000405842
Tax Identification Number (NIP)	9522106251
National Business Registry Number (REGON)	142886479

Contact details

Contact address	Cloud Technologies S.A. ul. Marszałkowska 89 00-693 Warszawa
Website	www.cloudtechnologies.pl
E-mail	biuro@cloudtechnologies.pl
Phone number	+48 225353050
Fax	+48 225353070