Cloud Technologies Group

Consolidated Financial Statement for 2019

Content:

A. **STATEMENT OF THE BOARD OF DIRECTORS**
B. **SELECTED FINANCIAL DATA**
C. **CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR THE PERIOD FROM JANUARY 1st TILL DECEMBER 31st 2019**

A. STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors of the parent company states that, to the best of its knowledge, the annual consolidated 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 Group and its financial result.

The Board of Directors of the parent company states that the report on the Group's operations presents a real picture on the developments, achievements, and situation of the Group, including the description of the basic threats and risks.

This consolidated annual financial statement was prepared in compliance with accounting principles, according to International Accounting Standards, International Financial Reporting Standards, and related interpretations announced in the form of European Commission regulations, as well as in the scope required by the document 'Current and periodic information provided in an alternative trading system on NewConnect Market' that constituted appendix 3 to the ATS Regulations. This report covers the period from January 1st to December 31st, 2019 and comparable period from January 1st to December 31st, 2018.

The Board of Directors states that, to the best of its 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.

In compliance with corporate governance principles adopted by the Company's Board of Directors, the audit company was chosen with a resolution on the choice of audit company from November 22nd 2019 by the Supervisory Board of the Parent Company. The Supervisory Board made the above choice ensuing a full independence and objectivity of the choice, as well as with regards to the performance of tasks by the auditor acting on behalf of the audit company.

Piotr Prajsnar

The Chairman of the Board of Directors in the Parent Company

B. SELECTED FINANCIAL DATA

Specification	01.01.2019 - 31.12.2019		01.01.2018 - 31.12.2018	
PROFIT AND LOSS STATEMENT	**PLN**	**EUR**	**PLN**	**EUR**
Net revenues from sales	42 729 422	9 932 917	43 694 236	10 240 277
EBITDA* profit (loss)	(391 005)	(90 893)	1 669 206	391 199
Profit (loss) on operating activities	(4 299 322)	(999 424)	97 111	22 759
Profit before tax (loss)	(4 919 479)	(1 143 586)	1 606 560	376 517
Profit after tax (loss)	(4 717 705)	(1 096 682)	864 066	202 504
Number of shares	4 600 000	4 600 000	4 600 000	4 600 000
Earnings per share (PLN/EUR)	(1.03)	(0.24)	0.19	0.04
REPORT ON FINANCIAL SITUATION				
Fixed assets	34 904 566	8 196 446	3 392 981	789 065
Current assets	41 223 504	9 680 287	64 703 239	15 047 265
Equity	58 739 495	13 793 471	62 577 300	14 552 860
Long-term liabilities	551 668	129 545	223 033	51 868
Short-term liabilities, other	16 836 907	3 953 718	5 295 887	1 231 602
Carrying amount per share (PLN/EUR)	12.77	3.00	13.60	3.16
CASH FLOW STATEMENT				
Net cash flow from operating activities	18 387 978	4 274 485	(2 641 903)	(619 162)
Net cash flow from investing activities	(26 175 174)	(6 084 703)	(309 485)	(72 532)
Net cash flow from financial activities	(451 861)	(105 040)	(18 497)	(4 335)

EUR/PLN exchange rate	**2019**	**2018**
- for balance sheet data	4.2585	4.3000
- for profit and loss statement data	4.3018	4.2669

*Profit on sale increased by amortization

To convert data from the report on financial situation, the average exchange rate of the National Bank of Poland NBP as of the balance sheet date was used.
To convert the profit and loss statement, as well as the cash flow statement, the arithmetic mean of the NBP exchange rates valid on the last day of each month of a given period was used.
.

A. CONSOLIDATED ANNUAL FINANCIAL STATEMENT FOR THE PERIOD FROM JANUARY 1st TILL DECEMBER 31st, 2019

GENERAL INFORMATION

I. Data of the parent company:

Name:	**Cloud Technologies S.A.**
Legal form:	**Joint-stock Company**
Main Office:	**Ul. Żeromskiego 7, Warszawa**
Country of registration:	**Poland**
Main activities:	
	- Activities related to software
	- Activities related to processing data
	- Activities related to digital advertising
National Court Register KRS	0000405842
Authority keeping the record:	Sąd Rejestrowy dla m.st. Warszawy w Warszawie, XIII Wydział Gospodarczy Krajowego Rejestru Sądowego
Statistical REGON number	142886479
Tax Identification Number NIP	9522106251

II. Group's ongoing status:

The parent company Cloud Technologies S.A. as well as other companies constituting the Group were established for an indefinite period.

III. Periods presented

The annual consolidated financial statement includes data for the period from January 1st, 2019 to December 31st, 2019. Comparable data are presented as of December 31st, 2018 for the consolidated statement from financial situation, as well as for the period from January 1st, 2018 to December 31st, 2018 for consolidated profit and loss statement, consolidated statement on comprehensive income, consolidated statement of cash flows, and statement of changes in consolidated equity.

IV. The composition of Statutory Governing Bodies of the Parent Company as of December 31st, 2019:

Board of Directors:

Piotr Prajsnar	- Chairman of the Board

Changes to the Board of Directors of the Parent Company:

There were no changes to the Board of Directors of the Parent Company in the current financial year.

Supervisory Board:

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

Changes to the Supervisory Board of the Parent Company:

There were no changes to the Supervisory Board in the current financial year.

V. Audit company:

Ecovis System Rewident Sp. z o.o.
ul. Garażowa 5a, 02 -651 Warszawa
entered on the list of audit companies under the number 1253

VI. Authorized Advisor

IPO Doradztwo Kapitałowe S.A.
ul. Marszałkowska 126/134
00-008 Warszawa

VII. Banks:

mBank S.A.
ul. Królewska 14
00-065 Warszawa

VIII. Quotations on regular or alternative market

1. **General information:**

Stock market:
Giełda Papierów Wartościowych w Warszawie S.A.
Alternatywny system obrotu NewConnect („NC")
ul. Książęca 4
00-498 Warszawa

Symbol on NC: CLD

2. **Deposit - settlement system:**
Krajowy Depozyt Papierów Wartościowych S.A. (KDPW)
ul. Książęca 4
00-498 Warszawa

3. **Investor relations:**
Tailors Group
Ul. Smolna 38 lok 5
00-375 Warszawa

IX. Important shareholders of the Parent Company:

As of December 31st, 2019, the shareholders of the Parent Company with over 5% of votes were as follows:

Shareholders	Number of shares	% Share capital	Number of votes	% votes
Prajsnar Piotr	1 277 000	27.76%	1 277 000	27.76%
Perpetum 10 FIZ AN	1 414 666	30.75%	1 414 666	30.75%
Cloud Technologies S.A.*	299 400	6.51%	299 400	6.51%
others up to 5%	1 608 934	34.98%	1 608 934	34.98%
Total	**4 600 000**	**100.00%**	**4 600 000**	**100.00%**

*Own shares acquired by Parent company in 2017.

As of the report publishing date, the shareholders of the Parent Company holding over 5% of votes were as follows:

Shareholders	Number of shares	% Share capital	Number of votes	%votes
Prajsnar Piotr	1 277 000	27.76%	1 277 000	27.76%
Perpetum 10 FIZAN	1 414 666	30.75%	1 414 666	30.75%
Cloud Technologies S.A.*	299 400	6.51%	299 400	6.51%
Oktawian Oźminkowski	240 145	5.22%	240 145	5.22%
others up to 5%	1 368 789	29.76%	1 608 934	29.76%
Total	**4 600 000**	**100.00%**	**4 600 000**	**100.00%**

X. Subsidiary companies:

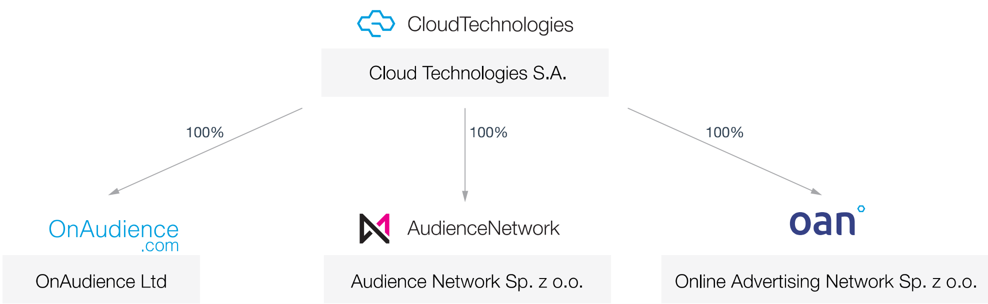
- Audience Network Sp. z o.o.(share in capital and votes: 100%),
- Online Advertising Network Sp. z o.o. (share in capital and votes: 100%),
- OnAudience Ltd. (share in capital and votes: 100%).

The subsidiary companies are consolidated with the acquisition accounting method. The consolidated financial statement of the Cloud Technologies Group ('Group') for 2019 includes data of all the above-mentioned subsidiary companies.

XI. Associated companies:

There are no associated companies in the Group in 2019.

XII. Graphic presentation of the Group:



XIII. Approval of the annual consolidated financial statement for publication:

This annual consolidated financial statement was approved for publication by the Board of Directors of the Parent Company on May 4th, 2020.

CONSOLIDATED ANNUAL FINANCIAL STATEMENT of the Cloud Technologies Capital Group

Consolidated profit and loss statement

Continued operations	Note	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018 **restated data*
Revenues from sales	1	**42 729 422**	**43 694 236**
Operating expenses	3	**46 287 167**	**42 528 344**
Amortization 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	4	410 792	198 381
Other operating expenses	4	1 152 369	1 267 162
Profit (loss) on operating activities		**(4 299 322)**	**97 111**
Financial revenues	5	53 115	1 574 338
Financial expenses	5	673 272	64 889
Profit (loss) before tax		**(4 919 479)**	**1 606 560**
Income tax	6	(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) per share (PLN)			
Basic for the financial period	7	(1.03)	0.19
Diluted for the financial period	7	(1.03)	0.19

in accordance with Note 33

Warsaw, on May 4th 2020

Board of Directors:
Piotr Prajsnar, Chairman of the Board

Entity responsible for accounting books:
Piotr Kościańczuk, Tax Advisor

Consolidated 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

Warsaw, on May 4th, 2020.

Board of Directors
Piotr Prajsnar, Chairman of the Board

Entity responsible for accounting books:
Piotr Kościańczuk, Tax Advisor

Consolidated statement of financial position

ASSETS	Note	31.12.2019	31.12.2018 **restated data*
I. Fixed assets		**34 904 566**	**3 392 981**
Intangible assets	10, 11	31 332 549	574 281
Goodwill	10, 11	2 526 018	2 526 018
Tangible fixed assets	9	59 403	117 453
Lease assets	9	707 048	0
Long-term investments		12 951	0
Deferred tax assets	6, 13	266 597	175 229
II. Current assets		**41 223 504**	**64 703 239**
Trade receivables	12	25 812 156	43 227 558
Other receivables	12	6 965 037	4 393 398
Income tax receivables	12	3 506 693	3 010 953
Short-term investments	15	4 825 630	13 053 943
Contract assets	14	56 275	371 000
Short-term prepayments	13	57 713	646 387
III. Total assets		**76 128 070**	**68 096 220**

EQUITY AND LIABILITIES	Note	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	16	460 000	460 000
Own shares	17	(18 000 000)	(18 000 000)
Supplementary capital and other capital	18	37 694 379	36 830 313
Capital from the valuation of incentive program	18	24 415 000	24 415 000
Reserve capital	17	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	19	494 929	0
III. Short-term liabilities and provisions		**16 836 907**	**5 295 887**
Trade liabilities	20	6 154 477	4 885 021
Short-term lease liabilities	19	242 774	0
Other financial liabilities	19	0	34 179
Other liabilities	20	90 013	54 391
Deferred revenues	21	9 230 209	0
Other provisions	22	1 119 434	322 296
IV. Total equity and liabilities		**76 128 070**	**68 096 220**

in accordance with Note 33

Warsaw, on May 4th, 2020

Board of Directors:
Piotr Prajsnar, Chairman of the Board

Entity responsible for accounting books:
Piotr Kościańczuk, Tax Advisor

Consolidated statement of changes in equity

	Share capital	Own shares	Supplementary capital	Share premium	Capital from the valuation of ncentive 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 – incentive program	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**

Warsaw, on May 4th, 2020

Board of Directors:
Piotr Prajsnar, Chairman of the Board

Entity responsible for accounting books:
Piotr Kościańczuk, Tax Advisor

Consolidated cash flow statement

Value in PLN	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. Net cash flows from operating activities		**18 387 978**	**(2 641 903)**
Cash flows 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
Subsidies and grants received		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 subject to grant/subsidy		15 980 000	0
Granted loans		30 000	0
III. Net cash flows from operating activities		**(26 175 174)**	**(309 485)**
Cash flows 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

Warsaw, on May 4th, 2020

Board of Directors:
Piotr Prajsnar, Chairman of the Board

Entity responsible for accounting books:
Piotr Kościańczuk, Tax Advisor

FURTHER INFORMATION TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENT

This annual consolidated financial statement was prepared on the accrual basis. The Cloud Technologies S.A. company is the parent company of the Cloud Technologies Group and prepares both standalone and consolidated financial statements.

I. Compliance with International Financial Reporting Standards.

This annual consolidated financial statement was prepared in compliance with International Accounting Standards, International Financial Reporting Standards, and related interpretations issued by the International Accounting Standards Board (IAS Board) announced in the form of Regulations of the European Commission, hereinafter referred to as "EU IFRS".

While preparing the annual consolidated financial statement for 2019, the Group adopted the same accounting standards that were applied while preparing the annual financial statement for 2018, except of changes in standards, new standards, and interpretations approved by the European Union for reporting periods beginning on or after January 1st, 2019. In 2019, the Group accepted all new and approved standards as well as interpretations issued by the IAS Board, valid on the territory of the EU, and that fit the Group's operations and activities in the reporting periods from January 1st, 2019.

From January 1st, 2019, the following standards, changes, and amendments to the current standards and interpretations are required:

1. IFRS 16 'Leases'
2. IFRIC 23 Uncertainty of interpretation regarding the income tax
3. Changes to IAS 28 'Investments in associated companies and joint ventures'
4. Changes to IFRS 9 'Financial instruments' – Contracts with features of prepayments having negative compensation
5. Changes to IFRS (2015-2017) – changes in the procedure of introducing annual improvements to IFRS,
6. Changes to IAS 19 'Employee benefits'.

The Group applied all the standards listed above for both financial data for 2019 and comparative data. The applied changes and amendments to standards and interpretations had no effect on this report. According to the Board of Directors of the Parent Company, there is no uncertain tax treatment occurring in the Group, the uncertainty of which would require to be reflected in the report according to IFRIC 23 uncertainty of income tax interpretation.

Standards and interpretations adopted by the IASB that have not yet been approved for use by the EU:

a) IFRS 14: Price regulated activities; balances of deferred items – valid in the reporting periods starting on or after January 1st, 2017. This standard was published as a part of a larger project called 'Activity of regulated prices' that is dedicated for the comparability of financial statements of entities operating in areas where prices are regulated by specific regulatory or supervisory authorities (depending on the jurisdiction, such areas often distribute electricity and heat, as well as energy, gas and telecommunication services, etc.). IFRS 14, in a broader scope, does not refer to accounting principles for regulated prices activities, but only states the rules for reporting items constituting either revenues or expenses that qualify for recognition under the current price regulation principles, and that do not meet other IFRSs conditions to be recognized as assets or liabilities. IFRS 14 can be applied when the entity operates in activities that are subject to price regulations, and it included amounts qualifying to be recognized as 'balances of deferred items' in its financial statements prepared in compliance with the earlier applied accounting principles. In accordance with the published IFRS 14, such items should be presented in a separate item of the statement on financial position (balance sheet), respectively in assets and liabilities. Those items are not divided into current and non-current items, and are not referred to as assets or liabilities. Therefore, 'deferred items' included in assets are known as 'balance due of deferred items', and those included in liabilities – as 'credit balances of deferred items'.
   In the profit and loss statement and other comprehensive income, entities should present net changes in 'deferred items', respectively in the section of other comprehensive income, and in the section of profit and loss (or in the separate profit and loss statement).
   This standard, as a transitional standard, following the decision of the European Commission, will not be a subject to the process of adoption.

b) IFRS 17 Insurance contracts – valid for reporting periods starting on or after January 1st, 2021.
   IFRS 17 replaces IFRS 4 Insurance contracts. IFRS 17 introduces separate principles of recognition and valuation of insurance contracts as well as reinsurance at their present value. IFRS 17 requires insurance contracts to be presented based on current estimates and assumptions that reflect expected future cash flows as well as all uncertainties related to them. Revenues from the insurance contracts (contractual margin) are recognized along with the services arising from the insurance contract for the period of insurance. Changes in estimates of future cash flows between the balance sheet dates are recognized in the statement on the result or as an adjustment to the expected contractual margin, depending on the nature of the change as well as the reason of its occurrence. The entity can choose how to recognize some changes in the discount rate: in the statement on the result or in the statement of comprehensive income for a period.
   Application of IFRS 17 is possible provided that IFRS 9 and IFRS 15 are implemented.

c) Changes in the scope of references to the Conceptual Assumptions in IFRS – valid for the reporting periods beginning on or after January 1st, 2020.

d) Changes to IFRS 3 'connection of ventures' – definition of a venture – valid for the reporting periods beginning on or after January 1st, 2020.

e) Changes to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting principles (policy), changes to accounting estimates and error corrections' – definition of the term 'significant' – valid for the reporting periods beginning on or after January 1st, 2020.

The Group intends to implement the regulations listed above till the deadlines provided for implementation by standards and interpretations.

The Group estimates that the standards listed above, as well as interpretations and changes to those standards, will not have a significant impact on the consolidated financial statement of the Group.

The impact of IFRS 16 'Leases' on the Group

General consequences of IFRS 17 'Leases'

IFRS 16 introduces a general model for identifying lease agreements and their settlements in financial statements of lessors and lessees. It is valid for accounting periods beginning on or after January 1st, 2019, and it replaces the current guidelines on leasing, including IAS 17 'Leases' and interpretations concerning it: IFRIC 4 'Determining whether the agreement contains a lease', SCI 15 'Operating Lease – special promotional offers', and SCI 27 'Assessment of the essence of transactions that employ the lease'.

The Group applied the new standard in compliance with its due date, employing **a modified retrospective approach** according to IFRS 16:C5(b). It indicates that the Group did not restate the comparative data, but recognized the cumulative effect of adopting the IFRS 16 as an adjustment to the equity (retained profit) as of the day the standard was applied for the first time. Based on the analysis, there was not stated need to make adjustments to the equity on this account.

Consequences of introducing a new lease definition

IFRS 16 introduces a new lease definition. The Group, however, employed a simplified version allowed in the transitional period, and will not reassess whether the previously classified contracts contain lease. Therefore, the definition of lease that is in compliance with IAS 17 and IFRIC 4, will continue to apply for lease contracts concluded or amended before January 1st 2019.

The basic element that distinguishes definition of lease in accordance with IAS 17 from the lease definition included in IFRS 16 is the concept of control. According to IFRS 16, a contract is a lease or an element of a lease if it transfers all rights to control the use of an identified asset in a given period and in return for payment. Control is considered to exist if the client has:
- the right to substantially all of the economic benefits resulting from the use of an identified asset;
- the right to decide about this particular identified asset.

The Group applied a new lease definition and related guidelines introduced in IFRS 16 to all lease contracts concluded or amended on or after January 1st, 2019.

While preparing to apply IFRS 16 for the first time, the Group carried out an implementation project – it showed that the new definition included in IFRS 16 will not significantly change the scope of contracts that in the Group are considered lease contracts in compliance with the definition arising from IAS 17 and IFRIC 4.

Impact on the accounting of the lessee

When the Group applied IFRS 16 for the first time for lease contracts classified as operating leases (with the exceptions listed below), it recognized the right to use assets and lease responsibilities in the statement on financial situation using the following valuation principles:

- lease obligations will be valued at the current value of remaining lease payments, discounted by the use of lessee's marginal interest rate on the date of the first application;
- the right to use assets in the amount equal to the relevant lease obligation, adjusted for any prepayments or accrued lease payments relating to the lease contract that are included in the statement on financial situation preceding the date of their first application.

After the initial recognition, the Group:

(a) in the statement on results – it recognized the amortization of the right to employ assets and the interest expenses related to the settlement of lease obligations;

(b) in the statement on cash flows – it recognized the repayments of the lease obligations, both the equity part and interests that occurred under financial activities.

As of December 31st, 2019, the Group had irrevocable lease obligations in the amount of PLN 737.7 thousand, and the right to use the component in the amount of PLN 707.0 thousand, in accordance with information included in note 9 as well as note 19. It is estimated that throughout 2019, the introduction of IFRS 16 resulted in a decrease of the 'External services' item by PLN 468.9 thousand, an increase in amortization by the amount of PLN 452.7 thousand, and an increase in the interest expenses by the amount of PLN 29.8 thousand.

As of December 31st, 2018, the Group did not have any contracts classified as finance lease.

Impact on financial ratios, banking covenants, and other agreements

The Company is not a party to credit agreements, therefore, the introduced changes did not affect any possible banking covenants.

II. Going concern assumption and financial statements' comparability

The annual, consolidated financial statement has been prepared on a going concern basis, i.e. assuming that the business activity will be continued in the period of 12 months after the last balance sheet date, that is December 31st, 2019. As of the date of signing the report, the Board of Directors of the Parent Company does not state the existence of facts and circumstances indicating risks for the business activity continuation in the period of 12 months after the balance sheet data, and as a result of intentional or forced omission, or a significant limitation of the current activity, except for the potential impact of the COVID-19 epidemic described in Note 34.

Until the date the annual consolidated report for 2019 was prepared, there were no events that should have been, but were not, included in the accounting books of the reporting period. Simultaneously, in the reporting period, there were no significant events concerning previous years included in this financial statement.

III. Principles of consolidation

The annual consolidated report of the Cloud Technologies Group consists of the financial statement of the Parent Company that is Cloud Technologies S.A., as well as subsidiary companies controlled by the Parent Company that are: Audience Network Sp. z o.o., Online Advertising Network Sp. z o.o. and OnAudience Ltd.

a) Subsidiary companies

Subsidiary companies are a subject to full consolidation from the very day the Group started controlling them. They cease to be consolidated on the date of the control's termination. The acquiring of the subsidiary companies by the Group is settled with the acquisition method.

Accounting standards applied by the subsidiary companies have been changed where necessary, to ensure the compatibility with the Group's accounting standards.

b) Companies included in the consolidated financial statement

Those consolidated financial statements for periods ending on December 31st, 2019 and December 31st, 2018 include the following companies that are a part of the Group:

Specification	Percentage share in general number of votes	
	31.12.2019	31.12.2018
Cloud Technologies S.A.	Parent company	
Audience Network Sp. z o.o.	100%	100%
OnAudience Ltd.	100%	100%
Online Advertising Network sp. z o.o.	100%	100%

(c) Foreign exchange rates to convert data of OnAudience Ltd

To convert the foreign exchange rates of OnAudience Ltd data for consolidation purposes, the Parent Company applies the principles in compliance with IAS 21:

1) assets and liabilities are converted at the exchange rate from the end of each quarter (an average exchange rate of the National Bank of Poland NBP at the end of the quarter);

2) Equity capital is converted at the exchange rate from the day the capital was created (historical);

3) Revenues and expenses are converted at the average quarterly exchange rate;

4) Balancing amount created – it is a foreign exchange differences capital, and a change of this capital period to period is presented as a part of other comprehensive income;

5) In the scope of intangible assets as well as fixed assets, there are the following principles applied: baseline values are converted at the average exchange rate of the National Bank of Poland NBP from the last day of the quarter, when the acceptance into service took place, amortization is converted at the average quarterly exchange rate at the end of each quarter. The difference from such conversion and net value conversion according to the exchange rate from the end of each quarter is charged to the exchange differences capital.

IV. Description of the adopted accounting principles (policy), including the methods of assets and liabilities valuation as well as the recognition of revenues and expenses

The accounting principles (policy) presented below were applied for all periods presented in the financial statement of the Group.

This consolidated annual financial statement is presented in the Polish PLN currency, unless stated otherwise.

Presentation of statements including operating segments

An operating segment is a part of the Group engaged in the business activity in connection with which it can gain revenues and incur expenses, including revenues and expenses arising from transactions with other parts of the Group.

Operating results of each operating segment are regularly reviewed by the Group's main authority responsible for making operating decisions in the Group.

Operating results of each segment, reported to the authority responsible for making operating decisions in the Group, include items that can be directly prescribed to a specific segment (revenues, operating expenses, trade receivables). The Group analyzes segments' results to the EBITDA level (understood as a profit on sales, increased by amortization).

In case of changes in the classification of the Group's operating areas in individual segments during the reporting period, the Group transforms the comparable data to achieve the consistency with data for the current period.

Financial instruments different than derivative instruments

Loans, receivables, and deposits are recognized at the date of their creation. All remaining financial assets (including assets valued at fair value according to financial result) are recorded at the date of those transactions that is the day when the Group becomes a party to a mutual obligation concerning a given financial instrument.

The Group classifies financial instruments, other than derivative financial assets, into the following categories: financial assets valued at fair value through profit and loss, assets/liabilities valued at amortized cost.

Financial assets valued at fair value through profit and loss

Financial assets are classified as an investment valued at fair value through profit and loss, if they are intended for trading or were appointed to be valued at fair value through profit and loss at the initial recognition. All profits as well as losses related to those investments are included in profits and losses of the current period.

Loans and receivables

Loans and receivables are financial assets of determined or possible to determine amounts of payments not listed on the active market. Those assets are initially recognized at fair value increased by directly assignable transaction costs. Valuation of loans and receivables at a later date is made according to amortized cost taking into account estimated loss allowance. IFRS 9 introduces a new concept for estimating impairment loss of financial assets. The model of incurred losses resulting from IAS 39 was replaced by a model based on expected losses. The model of expected losses applies to financial assets valued in amortized cost and financial assets valued at fair value through other total income with the exception of investments in equity instruments. In accordance with IFRS 9, the entity valuates the copy of loss allowance in the amount equal to 12-month loss allowance or loss allowance during the lifetime of a financial instrument. In case of trade receivables, the Group applies a simplified approach and valuates a copy for loss allowance in the amount equal to the loss allowance of the entire lifetime.

The Group has adopted the following rules for creating a copy of loss allowance depending on the past due period

Past due period	Percent
0 – 365 days	from 0% to 5%
>365 days	100%

The past due periods and percentage values listed above constitute the judgment of the Board of Directors in the Parent Company based on historical data as well as the Board's subjective assessment regarding the creditworthiness of a client, as well as the probability of the payment of receivables. The Board of Directors is also grouping clients into separate categories. For selected groups of clients, the Board of Directors may apply exceptions from the general provision introduced above. Should new information emerge regarding potential impossibility to recover receivables, or launch of external debt collection or legal proceedings, the Group may recognize loss allowance in the amount up to 100% of the receivables, despite the failure to achieve the past due date of 365 days.

Cash and Cash equivalents

Cash and cash equivalents constitute cash in cash offices and bank deposits on demand of initial maturity date up to three months.

Transactions in foreign currencies are recognized after converting into functional currency (PLN) at the exchange rate from the day of the transaction preceding. Assets and liabilities in cash expressed in foreign currencies are demonstrated in exchange rates prevailing at the balance sheet date.

Profit and loss resulting from the change of exchange rates after transaction date are recognized as financial revenues or expenses in the profit and loss statement. The exchange rate differences are included in the profit and loss statement as net amounts. For the cash flow statements, cash and cash equivalents are defined in the same way as in the balance sheet.

Financial obligations

Issued debt instruments as well as subordinated liabilities are recognized by the Group at the day of their appearance. All other financial obligations, including obligations valued at fair value through profit and loss and valued in accordance with amortized cost, are recognized as of the date of transaction, i.e. the day, when the Group becomes a party to an agreement requiring financial instrument issuance.

Other financial obligations include credits, loans, and other debt instruments, overdraft facilities.

Trade payables and other liabilities

Trade payables and other liabilities are valued at amortized cost or nominal value if the valuation according to the amortized cost approach does not differ significantly from the nominal value.

Common shares

Common shares are included in equity. Expenses directly related to issuing common shares, adjusted of taxation, decrease the value of equity. Share capital is recognized in nominal value specified in the status, in compliance with the entry in Polish National Court Register KRS. Capital resulting from issuing shares in the reporting period, that was submitted for registration in the Polish National Court Register KRS, but was not registered, is recognized in a separate item. Own shares were valued at their purchase price. This value is not further updated.

Purchase of own shares

In case of purchasing own shares, the amount paid on this account, including direct costs of transactions, adjusted of taxation, is shown as a decrease of equity. The purchased own shares are recognized as a separate item of equity. At the moment of sale or re-issue, the amounts received are recognized as an increase in equity, and the acquired surplus or shortage from this transaction is recognized as equity from the issue of shares above their nominal value.

Tangible fixed assets

Components of tangible fixed assets are recognized in the books at their purchase price or production cost decreased by depreciation charge and impairment losses. The purchase price includes expenses directly related to the purchase of the asset.

Profit or loss on the disposal of a component of tangible fixed assets is determined based on the comparison of disposal revenues with balance sheet value of the disposed assets. They are provided in the net amount in the profit or loss statement for the current period, in the item - other revenues or other expenses.

The amount of depreciation charges is determined based on the purchase price of a given component of assets.

The amortization cost is recognized in the profit or loss for a current period using the straight-line method for the estimated by the Group economic useful life of each item of the tangible fixed assets components.

In the financial statement for the reporting period and comparative periods, the Group assumes the following service periods for each category of the tangible fixed assets:

• Buildings - 10 years

• Technical equipment and machines – 2-5 years

• Means of transport – 5 years

At the end of each reporting period, the service life, amortization methods, and residual values of the tangible fixed assets are verified and if necessary – corrected.

Certain items of the tangible fixed assets were verified in 2019.

Applying the materiality principle, the Group recognizes fixed assets with an initial value of up to PLN 10 000 once in the profit and loss account, and in the period the expenditure was incurred.

Goodwill

Goodwill, which arises in connection with the acquisition of subsidiary companies, is recognized as an intangible asset. After the initial recognition, the goodwill determined in compliance with the acquisition method is decreased by accumulated impairment losses arising from tests of the value loss carried out in compliance with IAS 36. Those tests are prepared at least once, while preparing the annual consolidated report of the Group. The test on the loss of the goodwill consists in comparing the balance-sheet value of the unit to which the goodwill has been assigned with its recoverable value.

Other intangible assets

The value of the OnAudience.com platform was determined based on the production costs. The platform was accepted as other intangible asset on January 1st, 2017, with the service life of 4 years.

The value of the DSP license was determined based on the purchase cost. The license was accepted as other intangible asset on January 16th, 2019, with the service life of 7 years.

The value of the UnBlock was also determined based on the purchase cost. The system was accepted as other intangible asset on December 1st, 2019, with service life of 7 years.

Research and development

Expenses incurred during research works, with the goal to achieve new scientific or technical knowledge, are recognized in profit and loss statement of the current period and at the time they incurred.

The expenses on development works, after meeting the appropriate criteria making it probable to recover those costs, are recognized as intangible assets based on their purchase price or the production cost decreased by depreciation charge and impairment losses.

In compliance with IAS 36, the Group performs a test, at least once a year, to check whether a component of intangible assets of not stated service life did not lose its value. The same applies for a component of intangible assets that is not yet available for use. To do so, the Group compares its balance sheet value with the recoverable amount.

Estimated loss of financial expenses on completed development works and other intangible assets – the Group, in accordance with the adopted policy, performs individual analysis of all projects recognized as a part of the completed development works and other intangible assets in terms of the possibility of using them in operating activities, and expiration of rights to the hold assets. Based on the conducted analysis as well as professional assessments and judgments, and taking into account current projects, an impairment may be recognized arising from the loss of assets value to the amount the Group expects to be reached in the future from the use or sale of the asset's component sale.

As of the balance sheet date, the Board of Directors of the Parent Company assessed whether there are any indications that there was a loss of the value of financial expenses on completed development works and other intangible assets. No such cases were found, therefore no test on the loss of value was carried out.

A copy arising from the loss of value in case of completed development works is recognized in the comprehensive income statement under the manufacturing cost of services sold. In case of ongoing development works, it is recognized in the comprehensive income statement under other operating expenses.

Amortization of intangible assets

Amortization charges are calculated based on the purchase price of a given asset.

The amortization expense is recognized in profit or loss statement of a current period using the straight-line method for the estimated by the Group economic useful life of each item of the intangible assets components, other than the goodwill, and from the time it was determined to be of a use.

In the financial statement for the current period and comparable periods, the Group recognized service periods for particular categories of intangible assets as follows:

• Computer software – 2 years

The service period, amortization methods, and residual values of the intangible assets are verified at each balance sheet date, and if necessary – corrected.

Applying the materiality principle, the Group recognizes intangible assets with an initial value of up to PLN 10 000 once in the profit and loss statement, and in the period the expenditure was incurred.

Lease assets and lease obligations

As a part of its activity, the Group signed lease agreements, tenancy agreements, agreements of use, and leasing contracts that, in compliance with IFRS 16, met the conditions to be classified as a lease. In accordance with IFRS 16, in case of leasing agreements, in the statement of financial position, the Group recognizes an obligation reflecting future lease payments as 'lease liabilities' and as a corresponding component of assets 'the right to use assets'. In the comprehensive income statement, the Group provides interests expenses from the lease liabilities and amortization of the assets' component from the 'right to use'.

At the commencement date, the lessee valuates the assets' component arising from the right to use and in according to the expense.
The expense of the assets' component from the right to use includes:

a) the amount of the initial value of the lease liability in compliance with IFRS 16 clause 26,
b) any lease expenses paid on or before the commencement date, decreased by any granted lease encouragement,
c) any initial direct expenses incurred by the lessee,
d) estimated expenses to be incurred by lessee in connection with disassembling and removing of the base component of the assets, renovating the place it was located, or renovation of the base component of the assets to the state required by lease terms, unless those expenses were incurred to build inventory. Lessee is obliged to cover those expenses at the commencement date, or as a result of the use of the base component of assets in a given period of time.

After the commencement date, lessee valuates the component of assets arising from the right to use in accordance to the expense decreased by depreciation charge (amortization) and total loss arising from the value loss as well as any adjusted lease obligation arising from any changes to the value.

Assets amortization arising from the right to use is calculated with the straight-line method. If, as a part of the lease, the ownership right to the base component of assets is transferred to the lessee at the end of the lease term, or if the expense of the component arising from the right to use includes the fact of lessee using the call option, the lessee depreciates the component of assets arising from the right to use, starting with the commencement date until the end of the useful service of the base component of the assets. Otherwise, the lessee depreciates the component of assets arising from the right to use from the day the lease was entered into, and until the end of the useful service of this component, or to the end of the lease period, depending on which of those dates was first.

Based on historical data, contract provisions, and the Board of Directors' assessment of the future use of the indicated agreements, the Group determined the estimated duration period of the lease for individual types of agreements, as follows:

- Car rental agreements – economic useful life of 3-5 years (determined individually per contract),
- Agreements on dedicated Server – economic useful life of 2 years.

The Group analyzes the duration of its contracts in details, particularly in terms of extension options in selected contracts. The adopted period is a result of business rationality that may be used for the adopted analysis.

Impairments and write-offs arising from the value loss of assets

At the end of every reporting period, the Group assesses whether there are objective presumptions of the value loss of the financial assets' components other than assets valued at fair value through profit and loss. Financial assets are considered to lose value when after its initial recognition, there were objective presumptions indicating an event that can have a negative, reliably estimated impact on the value of future cash flows related to a given asset.

The Group assesses the presumptions about the loss of value of granted loans, receivables, or investment kept until the maturity date, both in the level of a single asset, and in relation to groups of assets.

The value loss in terms of financial assets valued in accordance with amortized cost is estimated as a difference between their book value, and current value of the estimated, future cash flows discounted using the original, effective interest rate.

Share-based payments

The parent company introduced an incentive program for the Group's authorities and key associates. As part of this program, the Group issues its shares in their nominal price to be acquired by those entities. Fair value of shares is recognized as expenses arising from payrolls in correspondence with increased equity. The fair value is determined as of the date the shares were acquired, and it is included in the expenses of the period of the services' performance. The fair value of employee stock programs is estimated as of the day the shares were granted and on the basis of market value based on NewConnect ratings or the price of shares sale outside the NewConnect market at significant volume.

Provisions

Provisions are recognized when the Group has a present legal or client obligation arising from past events, the value of which can be reliably estimated and it is possible that meeting this obligation will result in the outflow of economic benefits.

Revenues and expenses from operating activities

The Group recognizes revenues in compliance with IFRS 15 Revenues from Contracts with clients. This standard establishes the so-called Five Steps Model of recognizing revenues from contracts with clients. In accordance with IFRS 15, the revenues are recognized at the remuneration amount that – as expected by an entity – should be granted to this entity in exchange for the promised goods or services to a client.

The Group recognizes revenues when the performance obligation is met (or is being met) by transferring the promised good or service (that is the component of assets) to a client. The transfer of the component of assets takes place when the client obtains a control over this asset.

Revenues from sales include the received or due amount from the sale of services (after discount). Revenues from sales are recognized in net amount, that is without VAT.

Revenues arising from the provision of services (mainly online advertising campaigns settled on the basis of their effectiveness, as well as the sale of anonymous data of Internet users) are recognized at the moment the service is provided.

Expenses incurred during the basic activity are classified to expenses on operating activities that are presented using costs by type approach.

Other revenues, expenses, profits, and losses

Other operating revenues and expenses are expenses and revenues not directly connected to the basic activity.

Other financial revenues and expenses are mostly exchange rate differences and, to a lesser extent, also interests.

Profit and loss arising from exchange rate differences is presents in net amount as financial revenues of expenses, depending on their total net position.

Grants and subsidies

Grants and subsidies are recognized only at the moment, when there is a reasonable belief that the enterprise will fulfill the conditions related to the grant, and the grant will be received. Grants in the form of costs compensation are recognized as revenues over one or more periods. At the time the grant is received, it becomes a part of liabilities under the item 'deferred revenues'. Subsequently, the grant is gradually recognized as other operating revenue in the period equal to depreciation period of the fixed assets on creation of which the grant was administered.

Income tax

Income tax includes current and deferred tax. The current and deferred income tax is recognized in the profit and loss statement of a current period, except when it relates to the combination of items directly recognized in the equity or as other comprehensive income.

Deferred tax is recognized in connection with temporary differences between the balance sheet value of assets and liabilities, and their value determined for tax purposes.

Deferred tax is valued with the use of tax rates that are expected to be applied when the temporary differences are reversed, and the tax regulations, legally or factually in force till the reporting date, are recognized to be the basis.

A deferred tax asset, used to transfer the not-settled tax loss, and the not-employed tax credit, as well as deductible temporary differences, are recognized to the extent there is a possibility for a future taxable income that would allow creation of their copies.

Deferred tax assets are valued at each reporting date and reduced to the extent that it is not probable that the related income tax benefits will be implemented.

Profit per share

The Group presents basic and diluted profit per share for common shares. The basic profit per share is calculated by the division of profit or loss attributed to the common shares' owners by weighted average number of common shares for a year, adjusted for the parent company's own shares. The diluted profit per share is calculated by the division of the adjusted profit or loss attributed to the common shares' owners by weighted average number of common shares, adjusted for the shares' owners, and by diluted effects of potential shares that include bonds convertible into shares, as well as options on shares granted to employees.

Mobile games

Expenses on mobile games meet the conditions for their capitalization. Since 2016, they are classified as assets (as accruals) and are gradually recognized (for the already released titles), or will be recognized (for the yet not released titles) as amortization in line with generated revenues (that is in the period of 12 months from the day of generating revenues). As of December 31st, 2019, the Group the value of all unreleased games has been written off.

Functional and presentation currency

a) Functional and presentation currency

Items included in the financial statement are valued in the currency of primary economic environment in which the Group operates ('functional currency'). The financial statement includes amounts in Polish zlotys (PLN), that is functional and presentation currency of the Group.

b) Transactions and balances

Transactions in foreign currencies are converted into functional currency at the exchange rate valid on the transaction date. Exchange profit and loss from the settlement of those transactions, as well as the balance sheet valuation of cash assets and liabilities in foreign exchange are recognized in profit and loss statement, unless they are deferred in the equity, when they qualify as a cash flow hedge and a hedge of interests in net assets.

V. Significant values based on professional judgment

To prepare the financial statement, the Board of Directors of the Parent Company is required to make certain presumptions and assumptions that are reflected in this statement, as well as in additional information and explanations to this statement.

Accounting judgments and presumptions result from previous experiences and other factors, including predictions concerning future events that seem to be justified in a given situation.

Presumptions and related to them assumptions are verified. The change of accounting presumptions is recognized in the period in which the presumptions were changed, or in current and future periods, if those changes concern both the current and future periods.

a) Professional judgment

In the process of applying the accounting principles (policy) to the issues listed below, apart from the accounting principles, the professional judgment on the management was the most important.

Classification of lease agreements

From the beginning of 2019, in compliance with IFRS 16 provisions, all lease agreements are recognized in line with principles currently governing financial leases. The element of judgment remains with regards to whether an individual agreement can be or cannot be qualified as a lease under IFRS 16. An agreement is recognized as lease or contains lease if it provides the right to control the use of an identified assets component for a specific period of time, and in exchange for remuneration. The entity reassesses whether this agreement is a lease or if it becomes a lease only, when terms of this agreement are changed.

In case of permanent employment contract, the estimated lease period is a subject to professional judgment of the Board of Directors based on historical data analysis.

Analysis of estimated expected credit losses

The Group estimated and recognized a charge of estimated credit losses based on judgment regarding the risk of such losses. This judgment assumes a risk of non-performance of overdue receivables for individual groups distinguished based on the number of overdue days or client's specification. The judgment is based on historical data.

R&D

The expenses on creating an intangible asset with in-house resources are determined and capitalized in compliance with the accounting policy of the Group.

The Group begins to activate expenditure on R&D when it can be proved that the development works will result in probable future economic benefits and provided that the Group owns sufficient funds to finish, use, and obtain benefits arising from the intangible asset. The fulfillment of both these criteria, i.e. existence of possibility to achieve future economic benefits and the Group owning sufficient funds, is based on estimates of the Board, market analysis, as well as the analysis of the Group's financial situation.

The period of economic useful life of capitalized intangible assets

The Board of Directors estimates the service life, and thus the amortization rates for the incurred development expenses in the item of intangible assets. Those estimates are based on the expected economic useful life of those assets. In case of circumstances causing change of the expected useful life (e.g. technological changes, decommissioning from use, etc.), amortization rates need to be adjusted accordingly.

b) Uncertainty of estimates

Basic assumptions concerning the future and other key sources of uncertainty existing as of the balance sheet date, as well as the assumptions that may carry a significant risk of essential adjustments on the value of balance sheet assets and liabilities in the next financial period are discussed below.

Write-offs and expected losses of receivables
The Group assesses, whether there is any objective evidence that the value of a receivable component or group of receivables is lost. If the recoverable amount of an asset is lower than its balance sheet value, the Group recognized a write-off updating the current value of the planned cash flows.

At the same time, the Group divides clients into main groups in compliance with IFRS 9, and subsequently, periodically analyzes the risk of default of given receivables for each group. If a default is considered probable, an estimation of ‘expected losses’ is made, that is the level of probable future write-offs for receivables recognized in the Group’s result at the estimation date. The level of the calculated ‘expected losses’ is periodically checked and updated.

Deferred tax asset
The Group recognizes a deferred tax asset based on the assumption that there will be generated future tax profit that will allow its use. Deterioration of obtained tax results could make the assumption unjustified in the future.

Amortization and depreciation rates
The amount of amortization rates is determined on the basis of the predicted period of economic useful life of the tangible fixed assets and intangible assets. The Group verifies the adopted economic useful life periods every year, taking current estimates for a basis.

Impairment of assets

The Group carried out tests for impairment of intangible assets – goodwill. It required the estimation of the value-in-use of cash-generating unit to which the goodwill was assigned. Estimation of this value consists of determining future cash flows generated by this unit, and requires a number of assumptions concerning potential long-term financial results of the given unit. Actual financial results of the unit may significantly differ from assumptions adopted for the needs of the asset impairment test. The Group also performed tests for impairment of fixed assets. The performed tests did not indicate any need for recognizing impairments.

VI. Changes in accounting principles (policy)

In the period covered by the report, the Company updated accounting policy in the scope of formal implementation of IFRS 16.

ADDITIONAL NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Note 1. REVENUES FROM CONTRACTS WITH CLIENTS

Revenues from contracts with the Group's clients in 2019 as well as comparable data for 2018 are as follows:

Specification	*01.01.2019 - 31.12.2019*	*01.01.2018 - 31.12.2018*
Continuous activity:		
Sale of services	42 729 422	43 539 764
Sale of goods and materials	0	154 472
Revenue from continued operations	**42 729 422**	**43 694 236**
Revenue from discontinued operations	**0**	**0**
Total revenue from sale	**42 729 422**	**43 694 236**

Group's total revenues from sale in 2019 amounted to PLN 42.7 million and decreased by approximately 2% compared to 2018. There have been significant changes in the structure of recipients of Group's services. Inter alia, the Group limited the scope of its cooperation with clients who have overdue receivables, including affiliate networks. Detailed information on the above change can be found in the following sections of this note.

There were no revenues from discontinued operations.

Total revenues of the Group are as follows:

	01.01.2019 - 31.12.2019	*01.01.2018 - 31.12.2018*
Sales revenue	42 729 422	43 694 236
Other operating revenues	410 792	198 381
Financial revenues	53 115	1 574 338
TOTAL revenues	**43 193 329**	**45 466 955**

A more detailed description of services offered by the Group is included in Note 2.

Revenues from sale of services by main types of recipients

The Group identifies the following main types of recipients of the Group's services:

a. **Affiliate networks:** An affiliate network is a kind of intermediary between the entity ordering advertising campaigns and the entity executing those campaigns (e.g. the Issuer). Campaigns run through affiliate networks were mostly performance based (the Issuer's compensation was dependent on the result and effect of a given campaign, e.g. if a product was sold). The Group periodically invoices the affiliate network for all campaigns run in a given period of time through affiliate network that leads to a high concentration of recipients in this segment of activity. The affiliate network is responsible for financial settlements of campaigns. By running campaigns for clients from many different geographic markets, the Group can acquire anonymous data from those markets. Historically, sale to this group of recipients was included in the *Performance marketing* segment, at present it is a part of the *Data acquisition* segment.

b. **Brokers of advertising space:** Professional entities operating in digital marketing to whom the Group provides brokerage services in terms of purchasing of advertising space. The Group purchases media selected by the broker that are subsequently re-invoiced to the broker, usually with a small margin (the Group acts as a 'purchase centre'). This activity makes it possible to acquire anonymous data as well as obtain a better bargaining position with suppliers of advertising space. Historically, sales to this group of recipients was included in the *Data services* segment, currently it is a part of the *Data acquisition* segment.

c. **Advertising agencies and media agencies:** Media agency acts as an intermediary between the original entity ordering a campaign (direct client), and entity running the campaign (the Group). The Group invoices the given media agency, usually on a monthly basis. To run campaigns and increase their efficiency, anonymous data about the behavior of online users, processed by the Group, is utilized. Historically, sales to those recipients was reported in the *Data services* segment, currently it is included in *Data consulting* segment.

d. **Direct clients of advertising services:** various types of enterprises, mainly operating in the B2C model. The types of marketing campaigns carried out for direct clients are similar to campaign carried out for advertising and media agencies. However, lack of an intermediary enables the creation of direct relationship with a client and potentially it can result in obtaining a greater margin for the campaign. Clients are usually invoiced on a monthly basis. Anonymous data about behavior of online users processed by the Group is used to run campaigns and increase their efficiency. Historically, sales to those recipients were reported in the *Data services* segment, currently they are included in the *Data consulting* segment.

e. **Data and technology distributors:** clients who purchase from the Group anonymous data about behavior of online users (without the service of running marketing campaigns), or an access to its proprietary DMP technology. Data distributors are mainly technology platforms providing data to final clients (mainly from the online marketing industry, that utilize Group data for better campaign profiling). Clients settle with the Group mostly in the form of *revenue sharing*, that is they share revenues from sale of this data to final clients, usually not paying in advance for access to this data. Historically, sales to this group were included in the Data services segment, currently, due to increasing scale of operations and strategic nature of this category of services, revenues from this title were included in a new, *Data enrichment* segment.

f. **Other recipients:** currently, mainly revenues from mobile games published by the Group, other services such as UnBlock, and barter settlements with the Group's clients. All remaining revenues are included in *Other* segment.

Revenues from the sale of Group's services in 2019 and comparative data for 2018 divided into main types of recipients are as follows:

Specification	*01.01.2019 - 31.12.2019*	*01.01.2018 - 31.12.2018*
Affiliate networks	15 133 077	19 957 823
Brokers of advertising space	6 070 633	4 448 421
Advertising agencies and media agencies	9 148 883	8 652 928
Direct clients of advertising services	5 182 796	5 381 381
Data and technology distributors	7 181 481	4 997 395
Other recipients	12 553	101 816
Total revenues from sale of services	**42 729 422**	**43 539 764**

The structure of revenues from the Group's sale of services in 2019 and comparative data for 2018 are presented in the table below:

Specification	*01.01.2019 - 31.12.2019*	*01.01.2018 - 31.12.2018*
% of affiliate networks	*35.4%*	*45.8%*
% of brokers of advertising space	*14.2%*	*10.2%*
% of advertising agencies and media agencies	*21.4%*	*19.9%*
% of direct clients of advertising services	*12.1%*	*12.4%*
% of data and technology distributors	*16.8%*	*11.5%*
% of other recipients	*0.0%*	*0.2%*
Total revenues from sale of services	***100.0%***	***100.0%***

The percentage change of revenues from the sale of Group's services for 2019 compared to the comparative period presented in the table below:

Specification	*2019 vs 2018*
% change of sales to affiliate networks	*-24.2%*
% change of sales to brokers of advertising space	*36.5%*
% change of sales to advertising agencies	*5.7%*
% change of sales to direct clients	*-3.7%*
% change of sales to data and technology distributors	*43.7%*
% change of sales to other recipients	*-87.7%*
% total change of revenues from sale of services	***-1.9%***

In total, revenues from sales of the Group's services decreased by 2% compared to 2018.

The most significant decrease in terms of the achieved revenues was recorded in sales to the affiliate network segment – a change by over 24% year-on-year. This decrease is a result of the Group's continuous, conscious policy to reduce the cooperation with the Group's main direct client, resulting from the sustained high level of historically unpaid receivables, as well as from successive changes in the cooperation model. Currently, the Group treats the cooperation with affiliate networks primarily as a source of data used to provide services to other groups of clients, as opposed to previous years, when this group of clients was the greatest part of revenues and margin generated by the Group. At the same time, the Group intends to run mainly campaigns that are characterized by a shorter settlement period and, consequently, by faster conversion of receivables into cash. As a consequence of those activities, the margin on servicing this group of clients should significantly decrease (ultimately the Group expects a margin of zero), the amount of generated revenues will continue to be gradually reduced, however, cash flows from operating activities should ultimately improve.

The Group also recorded a significant decrease in the 'sale to other recipients'. This item contains currently historically offered barter services and settlements, including revenues from mobile games with a decreasing scale of sales, which are not a priority for further development strategy of the Group.

The Group recorded a significant increase of sales to brokers of advertising space, however, taking into account a small (few percent) margin on this type of activity, the increase in revenues in this area will not have a significant impact on the Group's results. The level of sales to this client group may act as a benchmark of the advertising market condition.

The strictly advertising activity (sales to agencies and direct clients) recorded a slightly positive (sales to advertising agencies) or negative dynamic (direct clients) of several percent. The unsuccessful first quarter of 2019 contributed to the low dynamics of sales to those groups of clients.

From the Group's perspective, the most important achievement was a high, almost 44%, increase in sales of data and technology - strategically a key direction for future development of the Group. In particular, an increase in sales of OnAudience Ltd, an entity dedicated to the expansion of the Group's data segment, was recorded. The sale of data and technology is also the most profitable area of the Group's operations, that is, it owns a relatively fixed cost base, and therefore future development in the scale of revenues should be associated with a tangible increase in margins. In 2019, the Group has achieved historically the highest level of turnover in this area of activity. Compared to 2018, those revenues were also achieved with a much more extensive and diversified customer base.

Geographic structure of the Group's sales

The detailed geographical structure of revenues is presented in the table below:

		01.01.2019 - 31.12.2019		***01.01.2018 - 31.12.2018***
	in PLN	in %	in PLN	in %
Country	**13 799 989**	***32.3%***	**15 926 457**	***36.4%***
Export, including	**28 929 433**	***67.7%***	**27 767 779**	***63.6%***
The European Union	4 801 654	*11.2%*	3 019 352	*6.9%*
the USA	2 826 026	*6.6%*	2 265 652	*5.2%*
Asia	21 301 753	*49.9%*	22 437 111	*51.4%*
Other	0	*0.0%*	45 664	*0.1%*
Total	**42 729 422**	***100.0%***	**43 694 236**	***100.0%***

The geographic structure of sales was determined based on the main office of a given client. Vast majority of revenues generated by the Group concerns export activities. Domestic sales primarily relate to revenues from re-invoicing of a purchased advertising space for subsidiary companies. Due to the fact that most of the services are provided to the entities that intermediate in settling with final recipients of the Group's services, the presented geographic structure does not have to correspond to the main office of final clients of the Group's services (for example, the Group distributes data with the use of a client registered in the USA, whose recipients are entities from the EU).

In 2019, the share of sales to one recipient exceeded 10% of the Group's sales value. Revenues from sales to the Recipient 1 amounted PLN 20.7 million (48%).

In 2018, the share of sales to one recipient exceeded 10% of the Group's sales value. Revenues from sales to the Recipient 1 amounted PLN 21.3 million (49%).

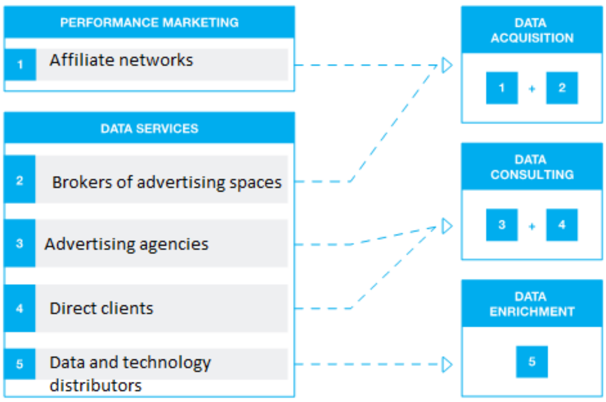
Note 2. OPERATING SEGMENTS

Presently, the Issuer identifies four main operating segments:
- *Data acquisition*
- *Data consulting*
- *Data enrichment*
- *Others*

Basic information on the operating segments is presented in the table below:

Name of the segment	Strategic purpose of the segment	Groups of clients	Typical level of margin	Expected dynamics of revenues
(1) Data acquisition	Achievement of anonymous data used to provide services of the whole Group	• Affiliate networks • Brokers of advertising spaces	*Low*	*Low*
(2) Data consulting	Running marketing campaigns with the use of data	• Advertising agencies • Direct clients of advertising spaces	*Medium*	*Medium*
(3) Data enrichment	International sale of data and technology segments mainly to advertising industry	• Data distributors • Recipients of the CT technology	*High*	*High*
(4) Other	Ensuring support to other segments	• All other clients	*Negative margin (centre of expenses)*	*None*

All changes in the reported operating segments, in comparison to previously distinguished segments are presented in the graphic below:



The scope of financial data analyzed within a segment

Each segment is analyzed to the level of EBITDA profit (for the needs of given segments, the EBITDA profit does not include allocations of other operating activities).

Sales revenues from the following groups of clients were assigned to individual segments:
(a) Affiliate networks and brokers of advertising space assigned to the *Data acquisition* segment,
(b) Advertising agencies and direct clients assigned to the *Data services* segment,
(c) Data and technology distributors assigned do the *Data enrichment* segment,
(d) Other clients assigned to the *Other* segment.

For each segment, there were the following groups of operating expenses distinguished:
(a) Costs of purchasing data and advertising space;
(b) Costs of tools, software licenses including the maintenance of the key software and servers (including the DSP platform as a part of the *Data acquisition* segment);
(c) Remuneration of people directly involved in the provision of services for clients of a given segment;
(d) Other expenses i.e. administrative and office expenses, bank fees and commissions, consultants, presence on the stock exchange, accounting, office space, promotion, marketing, equipment and business trips.

Expenses presented within a segment are the direct operating expenses of the given segment, without allocations of overhead expenses of the Parent Company. All indirect operating expenses of the Group (Expenses of Cloud Technologies not prescribed to segments) are currently presented in the *Other* segment (except for items actually re-invoiced by Cloud Technologies to subsidiary companies), as a result of which:

(a) expenses presented in the *Data acquisition* segment concern direct expenses for servicing clients of this segment as well as media expenses for servicing brokers of advertising space,
(b) expenses presented in the *Data consulting* segment concern all operating expenses of Audience Network and Online Advertising Network subsidiary companies, excluding expenses for servicing brokers of advertising space as well as affiliate networks,
(c) expenses presented in the *Data enrichment* segment concern all operating expenses of the OnAudience Ltd subsidiary company, as well as expenses of Cloud Technologies incurred for servicing data and technology distributors (mainly: data purchase, sale teams, programmers, hosting),
(d) expenses presented in the *Other* segment concern other expenses incurred by Cloud Technologies, not allocated to the three previous segments, including primarily expenses of the Issuer's corporate bodies, back office, administrative and office expenses, accounting, office space lease for back office operations, expenses on advisors and experts, as well as marketing activities of the Group.

Assets of a given segment are understood as trade receivables from the group of clients who are serviced within the given segment.

EBITDA is understood as a profit on sale increased by amortization. The Group does not analyze and allocate the amortization expenses, as well as other operating revenues or expenses of individual segments.

The Group does not allocate liabilities or income tax to operating segments.

Detailed description of individual operating segments

I. Data acquisition

Within this segment, two separate groups of clients are served: affiliate networks and brokers of advertising space.

(a) Affiliate networks

For affiliate networks, the Group runs marketing campaigns primarily for e-commerce clients, using affiliate networks as an intermediary between the Group and final clients.

Campaigns run within affiliate networks are settled depending on their efficiency, while purchasing media mainly in the RTB (Real Time Bidding) formula, by the use of DSP (Demand Side Platform) that belongs to OnAudience Ltd subsidiary company, which is them sublicensed to companies from the Group when needed. Historically, the DSP platform was licensed from IIIT Sp. z o.o. Sp. k. – historically a related party to the Issuer.

Revenue is generated when the Group achieves a specific effect desired and specified by the final client at the time of determining campaign's parameters (e.g. purchase of a given product by a recipient of the advertising content, leaving contact details by an Internet user, etc.).

Affiliate networks collectively settle all campaigns run for e-commerce clients in a given period of time, usually quarterly. Due to the fact that affiliate networks are intermediaries in contact with final clients, the main office of the client does not have to correspond to the main office of Group's final client.

Campaigns for affiliate networks are commissioned by clients operating on approximately 30 geographic markets, most often located in Europe. The Group's final clients are usually entities of less recognizable brands, not having a strong market position, or entities that sell products in the *white label* model.

Historically, the Group's intention was to run as many campaigns as possible, selected in terms of potential margins. Currently, due to long-term settlements and delays in payments, the Group has adopted a strategy of implementing a limited number of campaigns aimed primarily at achieving data, not margins.

(b) Brokers of advertising space

Brokers of advertising space are Professional entities operating in the online marketing industry for which the Group provides brokerage services in terms of purchasing advertising space. The Group purchases media selected by the broker that are subsequently re-invoiced to the broker, usually with a small margin (the Group acts as a 'purchasing centre'). Clients also usually use a trade credit granted by the Group (up to 90 days). There is a considerable demand for this type of services also due to the fact that the main providers of advertising space and DSP platform operators (such as AdForm, Google) have a restrictive policy of suspending cooperation in the event of delayed payments.

This activity enables the achievement of anonymous data as well as obtaining a better bargaining position with suppliers of advertising space.

The activity in the *Data acquisition* segment (generated revenues and expenses) is conducted by Cloud Technologies, OnAudience, Online Advertising Network, and Audience Network.

II. Data consulting

The Group sells data-based marketing services within this segment.

Within the Data consulting segment, the Group operates mainly through its subsidiary companies, that are Audience Network and Online Advertising Network. The entities mentioned above are oriented to carry out activities primarily on the Polish marked, occasionally on neighboring markets.

The subsidiary companies focus on providing services from the online marketing industry, including running marketing campaigns, mostly in the Big Data as a Service model, for two main groups of clients: advertising agencies and media agencies (including the largest international entities on the Polish market), as well as direct clients (including large enterprises operating on the B2C markets). Services provided by the subsidiary companies use the Issuer's technological supply base, including data enabling the optimization of marketing campaigns' efficiency.

Data consulting services are mainly used by clients operating in the B2C model (that is entrepreneur-consumer relation) due to a dispersed group of their clients. Those clients are serviced by the Company either in a direct commercial relationship or through media agencies.

Activities in the *Data consulting* segment (generated revenues and expenses) is conducted by Audience Network and Online Advertising Network.

III. Data enrichment

As a part of this segment, the Group sells anonymous data about behavior of Internet users as well as an access to the Group's technology. The commercial activity of the parent company on foreign markets is carried out under the brand name OnAudience.com. The segment shows sales generated by the Group as a part of Data exchange activity (direct sales of data about behavior of online users, mainly foreign distributors in Europe and on the USA market), as well as revenues from the DMP platform, that is analysis, enrichment, and inference on data on clients that are provided by external institutions.

Data exchange services are directed mainly to foreign distributors that are entities purchasing or selling high quality data about behavior of online users. *Data Exchange* services offered to clients under the OnAudience.com brand are among the most dynamically developing services offered by the Group and became a strategic pillar of further development of the Group. As a part of the service, the Group provides its foreign clients with appropriately segmented profiles of online users (e.g. according to its interests, purchasing intentions). Those profiles were previously a subject to anonymization process and grouped into 'packages' of at least several thousand records (thus they do not constitute personal data and do not allow the identification of a specific person). The Group's final recipients (that is clients of distributors) are mostly entities from online marketing industry that employ data for better profiling of their marketing campaigns. Clients settle with the Group mostly in the *revenue sharing formula*, that is they share with the Group revenues from the sale of the Group's data to final clients, usually not paying in advance for the access to the Group's data. The Group's intention in the coming months is to establish cooperation with a larger group of clients for the *Data Exchange* service and to complete the process of full technological integration with current clients.

Activities in the segment (generated revenues and expenses) are conducted by Cloud Technologies (under the OnAudience.com brand), and OnAudience Ltd, specialized subsidiary entity of the Issuer with its registered office in London, established to support international expansion of the Group in the *Data enrichment* segment. Revenues of other subsidiary companies from direct sale of data to external distributors are also included in this segment.

IV. Other

Among other services of the Group, there are mostly revenues from services supporting the sale of other segments, revenues from barter services, revenues from mobile games, as well as revenues from the UnBlock product.

As a part of the segment, there are also shown all expenses of the Issuer, not directly prescribed to other operating segments, that are mainly general expenses on the management of the main office.

Segments results over time

Information about revenues from operating segments in periods covered by this report are presented in the tables below:

	Data acquisition	Data consulting	Data enrichment	Others	Exclusions	In all
01.01.2019-31.12.2019						
Total revenues, from which :	**50 661 843**	**14 907 864**	**12 409 158**	**12 553**	**(35 261 996)**	**42 729 422**
(a) sales for external clients	21 203 709	14 331 679	7 181 481	12 553	-	42 729 422
(b) sales between segments	29 458 134	576 185	5 227 677	-	(35 261 996)	-

	Data acquisition	Data consulting	Data enrichment	Others	Exclusions	In all
01.01.2018-31.12.2018						
Revenues in all, from which	**29 218 991**	**14 235 280**	**5 131 021**	**124 987**	**(5 170 515)**	**43 539 764**
(a) sale for external clients	24 406 244	14 034 309	4 997 395	101 816	0	43 539 764
(b) sale between segments	4 812 747	200 971	133 626	23 171	(5 170 515)	0

In terms of the whole Group, revenues from the sale of services decreased in 2019 by 2% compared to 2018. The *Data acquisition* segment noted a decrease in sales to external clients by 13%, while the *Data consulting* segment noted an increase in sales by 2%, and *Data enrichment* segment by 44%. However, due to the importance of the *Data acquisition* segment to the sale structure in all, the increase in sale in those segments did not compensate the decrease in revenues from the data acquisition area.

Information on the results of operating segments in 2019 and 2018, up to the EBITDA level, are presented in the tables below:

	Data acquisition	Data consulting	Data enrichment	Other	Exclusions	In all
01.01.2019-31.12.2019						
Revenues in all	**50 661 843**	**14 907 864**	**12 409 158**	**12 553**	**(35 261 996)**	**42 729 422**
Expenses in all, from which:	**50 186 733**	**15 518 241**	**9 337 901**	**3 311 800**	**(35 234 248)**	**43 120 427**
(a) media and data purchase	44 486 125	11 246 114	2 471 880	(23 579)	(30 772 369)	**27 408 171**
(b) personnel	482 361	2 789 037	2 391 230	1 920 574	-	**7 583 201**
(c) tools and licenses	5 218 247	21 160	4 015 034	53 258	(4 447 894)	**4 859 806**
(d) other	0	1 461 930	459 758	1 361 547	(13 986)	**3 269 248**
EBITDA segment	**475 110**	**(610 377)**	**3 071 257**	**(3 299 247)**	**(27 748)**	**(391 005)**
% of EBITDA margin	*0.9%*	*(4.1%)*	*24.7%*	-		-
Assets segment	**42 979 329**	**4 552 652**	**10 595 945**	**349 327**	**(32 665 098)**	**25 812 156**

	Data acquisition	Data consulting	Data enrichment	Other	Exclusions	In all
01.01.2018-31.12.2018						
Revenues in all	**29 218 991**	**14 235 280**	**5 131 021**	**124 987**	**(5 170 515)**	**43 539 764**
Expenses in all, from which:	**26 882 504**	**13 300 407**	**3 418 984**	**3 411 999**	**(5 170 516)**	**41 843 379**
(a) media and data purchase	16 642 551	9 767 799	678 059	81 478	(5 138 942)	**22 030 945**
(b) personnel	606 150	2 346 830	2 000 856	1 398 275	-	**6 352 112**
(c) tools and licenses	9 633 802	39 502	7 052	43 865	-	**9 724 221**
(d) other	0	1 146 276	733 018	1 888 381	(31 573)	**3 736 101**
EBITDA segment	**2 336 487**	**934 873**	**1 712 037**	**(3 287 012)**	**0**	**1 696 386**
% of EBITDA margin	*8.0%*	*6.6%*	*33.4%*	-		*3.9%*
Assets segment	**39 698 294**	**4 069 105**	**1 368 650**	**189 615**	**(2 098 106)**	**43 227 558**

Consolidated EBITDA result in 2019 – a loss of PLN 0.4 million – was significantly lower compared to the corresponding result in 2018 (profit of PLN 1.7 million). The greatest decrease in profitability was recorded in the *Data acquisition* segment (decrease by PLN 1.9 million) which was mainly due to the reduced scale of campaigns for affiliate networks, as well as implementing other types of campaigns. Currently, it should be expected that the segment's profitability will fluctuate within a few percentage points.

The Data *consulting segment* noted a slight EBITDA profit in 2018 (PLN 0.9 million). Due to worse operating results of both subsidiary companies operating in the segment, the segment noted significantly worse result (loss of PLN 0.6 million) in 2019, when compared to 2018.

In the *Data enrichment* segment from 2019, EBITDA almost doubled compared to 2018, despite the fact that data for 2018 only partially included the expenses of the OnAudience Ltd subsidiary company with its registered office in London (that started operating in May 2018). With a very significant increase in sales and a partially stable nature of expenses, the effect of operating leverage in the segment is visible.

The loss on the '*Other*' segment (mainly overhead expenses of the Group's activity, not assigned to other segments) was similar in 2019 and 2018.

Reconciliation of segment results before tax

Additional reconciliation of segments' results to the Group's result before tax is presented in the table below:

Specification	***01.01.2019 - 31.12.2019***	***01.01.2018 - 31.12.2018***
all EBITDA segments	**(391 005)**	**1 696 386**
Depreciation and amortization	3 166 740	503 314
Adjustment for goods sale	-	(27 179)
Other operating revenues	410 792	198 381
Other operating expenses	1 152 369	1 267 162
Results on operating activities	**(4 299 322)**	**97 112**
Financial revenues	53 115	1 574 338
Financial expenses	673 272	64 889
Result before tax	**(4 919 479)**	**1 606 559**

Note 3. OPERATING EXPENSES

Structure, dynamics, and share of the Group's operating expenses in 2019 are presented in the table below:

Specification	***01.01.2019 - 31.12.2019***	***01.01.2018 - 31.12.2018***	***change in %***
Depreciation and amortization	3 166 740	503 314	*529.2%*
as % of sales	*7.4%*	*1.2%*	
Consumption of materials and energy	155 251	196 117	*-20.8%*
as % of sales	*0.4%*	*0.4%*	
External services	40 966 700	39 982 276	2.5%
as % of sales	*95.9%*	*91.5%*	
Taxes and charges	102 609	95 617	*7.3%*
as % of sales	*0.2%*	*0.2%*	
Payroll	1 185 736	1 091 833	*8.6%*
as % of sales	*2.8%*	*2.5%*	
Social security and other benefits	181 316	95 651	*89.6%*
as % of sales	*0.4%*	*0.2%*	
Other costs by type	528 815	381 885	*38.5%*
as % of sales	*1.2%*	*0.9%*	
Value of goods and materials sold	0	181 651	*-100.0%*
as % of sales	*0.0%*	*0.4%*	
Total operating expenses	**46 287 167**	**42 528 344**	**8.8%**
as % of sales	*108.3%*	*97.3%*	

The structure of operating expenses in 2019 was similar to this from 2018, except for increase in D&A expenses. The most important item of the Group's operating expenses are external services described in detail below. The external services constitute partially fixed expenses incurred regardless of the scale of the Company's operations (e.g. licenses, expenses on associates).

The increase in the value of D&A in 2019, compared to data for 2018, results from the following main factors:

(a) commencement of amortization of the DSP license purchased in 2019 (estimated annual amortization cost of over PLN 2 million),
(b) changes resulting from the implementation of IFRS 16,

(c) commencement of amortization of the UnBlock system, put into use in the fourth quarter of 2019.

External services

The most important item of the Group's operating expenses are the expenses of external services, within which the Group distinguishes:

(a) Ad space and data purchase expenses – it primarily includes the expenses on advertising space or raw data. In most cases, as a part of the advertising space purchase, the Group obtains data directly related to displayed advertising for which the Group had paid.
(b) Tools and licenses expenses – including primarily the license on the DSP platform (Demand Side Platform enabling media purchase in the RTB model – Real Time Bidding), licensed from former related entity that was IIIT Sp. z o.o. Sp. k., used by the Group to run a great number of marketing campaigns. At the same time, as a part of the agreement (and as a part of the tools expenses), IIIT provides maintenance, support and development services, as well as re-invoices the Group's technical infrastructure expenses related to the platform (mainly the expenses of renting and maintaining servers).
(c) Contractor costs – including the expenses of people providing services to the Group based on B2B contracts, as well as the expenses of external companies providing the Group with employee services. In order to determine total personnel expenses incurred by the Group, the expenses on contractors should also be added to the payroll expenses, as well as expenses on insurance and social benefits (included in the profit and loss item).
(d) Other external services include primarily: expenses on outscoring infrastructure (servers, hosting), expenses of office space, media, expenses of an external accounting office, and expenses of consultants and experts.

The main components of the external services expenses of the Group in 2019 are presented in the table below:

External services	***01.01.2019 - 31.12.2019***	***01.01.2018 - 31.12.2018***
Ad space and data	27 408 171	22 014 076
Tools and licenses	4 859 806	9 724 221
Contractor costs	6 089 182	5 241 295
Other external services	2 609 541	3 002 684
Expenses on external services in all	**40 966 700**	**39 982 276**

In total, the external service expenses in 2019 increased by only 2.5% when compared to 2018. The most significant increase was recorded in the item 'ad space and data (25% year on year). The media purchase expenses is the main variable expense of the Group and it is characterized by trends in line with changes of total expenses, especially in case of sales to affiliate networks, brokerage activities, and the activity of the *Data consulting segment*.

Increase was also recorded in 'contractor costs (16% year on year). The Group tries to offer its associates market level, in accordance with current trends in economy, particularly on the IT services market.

The largest decrease in the expenses of external services was recorded for 'Tools and licenses' (decrease by 50% when compared to 2018). Reduction in expenses in this area results from the effects of the DSP license purchase, and lack of expenses incurring from license fee from the middle of January 2019.

The expenses of other external services decreased by 13%, a change of PLN 0.5 million.

Note 4. OTHER OPERATING REVENUES AND EXPENSES

Other operating revenues	**01.01.2019 - 31.12.2019**	**01.01.2018 - 31.12.2018**
Grants and subsidies	297 791	2 879
Re-invoicing of expenses	52 115	42 399
Other operating revenues	60 886	153 103
Total	**410 792**	**198 381**

In 2019, the Group started to recognize the grant awarded by PARP for the implementation of the 3.2.1. project in the total amount of PLN 9.5 million. The grant will be recognized for a period of 7 years starting from November 2019, with the exception of the grant in the amount of PLN 24 thousand on the infrastructure purchase that was recognized once in April 2019. As a result, the net result of the Group will be influenced by the difference between the amortization of the entire fixed and intangible assets value, and the recognition of the grant (awarded in the amount of 60% of the fixed and intangible assets).

Other operating expenses of the Group for 2019, and comparative data for 2018 are presented in the table below:

Other operating expenses	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Estimated credit losses	337 048	299 232
Irrecoverable settlements	142 835	425 577
Re-invoicing of expenses	34 728	65 638
Write-off of development expenses of mobile games	595 194	431 452
Other operating expenses	42 564	45 263
Total	**1 152 369**	**1 267 162**

Other operating expenses include, inter alia, expenses for benefits for the Group's associated. In Q4 of 2019, however, there was a significant, one-time transaction as a part of which, as a result of the performed an impairment test on mobile games development costs and recognized a write-off of PLN 595 thousand. Due to the fact that the titles did not enter distribution and there were no reliable prospects for the titles to start generating revenues in the future, a decision was made to completely write-off the remaining development expenses of those games. The Group intends to try to sell the proprietary rights of the developed titles to an external entity in coming quarters.

As a part of compliance with IFRS 9, clients were divided into separate groups, then each group was assigned their historical write-offs, followed by quality analysis of receivables portfolio as part of a given segment. As a result, the level of expected losses was calculated (as % of the level of receivables for a given group of contractors), reflecting expected risk of future receivables write-offs, and charged to the Group's expenses (presented as 'estimated credit losses'). Assumptions and the amount of expected losses are verified quarterly by the Group, compared to the previous quarter, with the difference included in the Group's current results.

The item 'irrecoverable settlements' is an effect of annual review of the Group's settlements and concerns primarily historically recorded, but not yet settled transactions (concerning the end of 2018 and 2019). In 2018, the value of this item was significantly influenced by settlements with barter partners, and the record of receivables from entities that ended their operating activities. The remaining value of the items in 2018 and 2019 was relates primarily to expenses on which the Group has no source documents, which is mainly due to payments with business cards. Starting from 2020, the Group introduced at least a quarterly review of settlements to minimize the value of annual review.

Note 5. FINANCIAL REVENUES AND EXPENSES

Financial revenues	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Interests	18 936	13 677
Exchange gains	0	1 556 490
Other	34 179	4 171
Total	**53 115**	**1 574 338**

Financial expenses of the Group in 2019 and 2018, divided into main components, were presented in the table below:

Financial expenses	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Interests	32 118	1 803
Exchange losses	622 109	0
Other	19 045	63 086
Total	**673 272**	**64 889**

Due to the practically no interest bearing debt of the Group, the main item of the Group's financial revenues and expenses are foreign exchange differences.

Exchange differences are shown in a 'balance' approach, that is only a balance indicating the difference between positive and negative exchange differences is shown as an item of financial revenues (positive balance of differences) or financial expenses (negative balance of differences).

The Group incurred production expenses mainly in PLN (and also in USD to a lesser extent), while the majority of revenues is generated in foreign currencies, including primarily EUR (to a lesser extent in USD). If the PLN currency strengthens, primarily to the EUR currency (that took place in Q4 of 2019), the Group may show negative exchange rate differences.

The amount of exchange rate differences depends on the level of exchange rate between the moment of obtaining income from a foreign client, and the exchange rate level at the time of foreign receivables inflow. Similarly, in case of foreign trade liabilities, primarily from media/ad space purchase. The Group also performs balance sheet valuation of foreign currency trade receivables and liabilities as of the reporting date, and as a result of which a new source of exchange rate differences appear. Taking into account the Group's activities to decrease the total level of receivables, going forward those exchange rate differences should not be as significant as in the previous periods (assuming no significant deviances in exchange rates).

Due to the fact that clients pay mostly in foreign currencies, the Group regularly performs spot currency exchange transactions**,** as a result of which it can show some exchange rate differences on those transactions.

Decomposition of financial revenues and expenses divided into categories of financial instruments for the period ended on 31 December 2018 was presented in the table below:

01.01.2018 - 31.12.2018	Trade receivables and other receivables	Trade liabilities and other liabilities	Financial liabilities valued in amortized cost	Financial liabilities valued at fair value through profit and loss	Cash	Total valuation of financial instruments
Result of valuation to fair value	0	0	0	(34 179)	0	**(34 179)**
Interest revenues/expenses	0	0	(91)	0	13 677	**13 586**
Profit/loss on exchange rate differences	1 157 456	(59 994)	0	0	459 028	**1 556 490**
Profit/loss in all	**1 157 456**	**(59 994)**	**(91)**	**(34 179)**	**472 705**	**1 535 897**

Decomposition of financial revenues and expenses divided into categories of financial instruments for the period ended on 31 December 2019 was presented in the table below

01.01.2019 - 31.12.2019	Trade receivables and other receivables	Trade liabilities and other liabilities	Financial liabilities valued in amortized cost	Financial liabilities valued in a fair value through profit and loss	Cash	Total valuation of financial instruments
Result of valuation to fair value	0	0	0	34 179	0	34 179
Interest revenues/expenses	858	0	(29 811)	0	18 078	(10 875)
Profit/loss on exchange rate differences	(957 070)	375 052	0	0	(40 091)	(622 109)
Total profit/loss	**(956 212)**	**375 052**	**(29 811)**	**34 179**	**(22 013)**	**(598 805)**

Note 6. INCOME TAX AND DEFERRED INCOME TAX

The Parent company and the subsidiary company Audience Network pays CIT tax in the form of prepayments. Online Advertising Network may start to use prepayments in 2020. Due to deterioration of profitability in 2018, the Parent company noted a significant level of overpayment of CIT in 2018. To reduce this position, the Parent Company applied for the overpayments to be included in lieu of future advances, and it achieved a permission to limit the level of prepayments for the second half of 2019. The parent company intends to apply for a cash refund of overpaid payments in advance in 2020.

The main components of tax burden for previous years 31 December 2019 and 2018 are as follows:

Income tax in profit and loss statement	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Current income tax	**58 435**	**519 866**
Concerning the financial year	62 035	513 431
Adjustments concerning previous years	(3 600)	6 435
Deferred income tax	**(260 209)**	**222 628**
Related to the creation and reversal of temporary differences	(260 209)	222 628
Related to decrease in the income tax rate	0	0
Tax burden recognized in the profit and loss statement	**(201 774)**	**742 494**

The deferred income tax presented in the profit and loss statement is the difference between reserves and assets arising from deferred tax at the end and at the beginning of reporting periods.

Current income tax	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Profit before tax	**(4 919 479)**	**1 606 560**
Change arising from negative tax results of subsidiary companies	**(2 090 668)**	**(1 550 029)**
Revenues excluded from taxation	423 019	1 895 112
Expenses of previous years decreasing the taxation base	191 613	623 039
Expenses not tax deductible, including:	3 769 941	2 049 675

Income after tax	**326 499**	**2 688 114**
Deductions from income – donation, loss	0	(14 156)
Taxation base	**326 499**	**2 702 270**
Income tax of 19% rate	62 035	513 431
Effective tax rate	**-**	**46%**

Effective tax rate is calculated as a part of the tax burden presented in the profit and loss statement as profit before tax.

In 2019, due to tax loss, effective tax rate was negative. Effective tax rate in 2018 amounted 46%, however, taking into account the adjustment for permanent differences and adjustment for change resulting from negative tax results of subsidiary companies, the effective tax rate amounted to 17%.

Current part of the income tax was established in accordance to rate of 19% (Online Advertising Network settles according to 9% CIT rate) for the income taxation base.

Negative temporary differences being a basis to create assets arising from deferred tax	31.12.2018	increase	decrease	31.12.2019
Other reserves	322 296	1 119 432	322 296	1 119 432
Forward valuation	34 179	0	34 179	0
Negative exchange rate difference	0	112 079	0	112 079
Payroll and social securities	0	3 777	0	3 777
Write-off of receivables	244 107	422 028	176 393	489 741
Difference in balance sheet value and fixed assets tax	0	19 896	0	19 896
Tax loss	481 789	0	0	481 789
All negative temporary differences	**1 082 371**	**1 677 212**	**532 868**	**2 226 714**
tax rate	**15/19%**	**9/19%**	**9/19%**	**9/19%**
Assets from deferred tax	**175 229**	**254 296**	**162 928**	**266 597**

Positive temporary differences being a basis to create assets arising from deferred tax	31.12.2018	increase	decrease	31.12.2019
Positive exchange rate differences	557 608	0	557 608	0
Fixed assets – difference between balance sheet value and tax value	41 975	0	41 975	0
Development Works – difference between balance sheet value and tax value	574 280	0	275 652	298 628
All positive temporary differences	**1 173 863**	**0**	**875 235**	**298 628**
tax rate	**15/19%**	**9/19%**	**9/19%**	**9/19%**
Reserve arising from deferred tax at the end of the period:	**223 034**	**0**	**166 295**	**56 739**

Net assets/reserves arising from income tax are presented in the table below:

Specification	31.12.2019	31.12.2018
Assets arising from deferred tax	266 597	175 229
Reserves arising from deferred tax – continued operations	56 739	223 034
Net assets/reserves from deferred tax	**209 858**	**(47 805)**

Note 7. PROFIT PER SHARE

Basic profit per share is calculated by the division of net profit for the period attributed to common shareholders of the Parent company by an average weighted number of issued common shares during the period.

Diluted profit per share is calculated by the division of net profit for the period attributed to common shareholders (after charging interests to redeemable preferred changing stock to common stock) by an average weighted number of issued common shares during the period (adjusted of the impact on diluted options and diluted redeemable preferred changing stock to common stock). To calculate the diluted profit presented in profit and loss statement, own shares of the Parent company were not included due to the fact that they are not planned to be redeemed as of the date of the statement, however, for presentation purposes, there is calculation of this profit both in the variant of redeeming of own shares, as well as not performing this action, presented in the tables below:

Calculation of profit per share was based on the following information:

Calculation of profit per share - assumptions	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Net profit from continuous operations	(4 717 505)	864 066
Loss on discontinued operations	0	0
Net profit attributed to common shareholders, applied to calculate diluted profit per share	**(4 717 505)**	**864 066**
Effect of dilution	0	0
Profit recognized for the needs of calculation of diluted profit per share	**(4 717 505)**	**864 066**

Number of issued shares

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Average weighted number of shares presented for the needs of calculation of basic profit value per share	**4 600 000**	**4 600 000**
Effect of dilution of common stock	0	0
Average weighted number of common shares presented for the needs of calculation of diluted profit value per share	**4 600 000**	**4 600 000**

In the period from the balance sheet date and the date of this financial statement, there were no other transactions concerning common stock or potential common stock.

Profit per share, including redemption of own stock

The hypothetical effect of recognizing own shares in the calculation of the average weighted number of shares for the period (by subtracting the number of 299 400 own shares from the total number of shares of the Parent company) on diluted profit per share in 2019 is presented in the table below:

Specification	No redemption of own shares	Full redemption of own shares
Net profit for period	(4 717 705)	(4 717 705)
Average weighted number of shares for the period	4 600 000	4 300 600
Diluted profit per share	**(1.03)**	**(1.10)**

Note 8. FAIR VALUE

As of the balance sheet date, the Group has not held financial instruments at fair value in the statement on financial situation.

At the same time, in case of financial instruments not valued at fair value – there was no significant difference between their balance sheet value and fair value as of the reporting date identified.

As of December 31st, 2018, the Group was a counterparty to currency contracts for EUR/PLN currency pairs for the amount of EUR 1.1 million. Contracts as of December 31st, 2018 were valued according to fair value based on valuation prepared by an external investment company at the level of PLN -34 thousand (loss). The above valuation included input data that could be quoted prices and other data observed for the component of assets or liabilities (level I of the fair value hierarchy).

Note 9. TANGIBLE FIXED ASSETS

The structure of tangible fixed assets by main items is presented below:

Specification	31.12.2019	31.12.2018
Machines and devices	15 461	34 005
Means of transport	32 117	72 609
Other tangible fixed assets	1 935	2 709
Advance payments for tangible fixed assets	9 890	8 130
Total tangible fixed assets	**59 403**	**117 453**
Right-of-use assets	707 048	0
Total	**766 451**	**102 403**

The item ‘Machines and devices’ includes primarily office and computer equipment purchased by the Group.

The item 'Right-of-use assets' include primarily net balance sheet value of the means of transport as of December 31st, 2019, under lease agreements and rental agreements with the option to purchase. Starting from Q1 of 2019, this item also includes lease agreements of cars, classified as financial lease in compliance with IFRS 16. Net value of the right-of-use of those assets was determined as of December 31st, 2019 at PLN 626 thousand and is subject to depreciation. Starting from Q1 of 2019, this item also includes server rental agreement classifies as lease in compliance with IFRS 16. Net value of the right-of-use of those assets was established on December 31st, 2019 at the level of PLN 81 thousand and is also subject to depreciation.

Ownership structure of fixed assets was presented in the table below:

Ownership structure – net value	31.12.2019	31.12.2018
Own	49 513	117 453
Used based on lease agreement	707 048	0
Total	**756 561**	**117 453**

Detailed information on fixed assets under lease was presented in Note discussing other financial liabilities.

Changes of individual groups of tangible fixed assets by type for 2019 are presented in the table below:

Specification	Machines and devices	Means of transport	Other fixed assets	Advance payments on fixed assets	Total
Balance sheet gross value as of January 1st, 2019	**372 901**	**194 649**	**24 226**	**8 130**	**599 906**
Increase from:	**94 415**	**0**	**5 785**	**9 890**	**110 090**
- purchase of fixed assets	94 415	0	5 785	9 890	**110 090**
Decrease from:	**0**	**1 954**	**0**	**8 130**	**10 084**
- other	0	1 954	0	8 130	**10 084**
Balance sheet gross value as of December 31st, 2019	**467 316**	**192 695**	**30 011**	**9 890**	**699 912**
Redemption as of January 1st, 2019	**338 896**	**122 040**	**21 517**	**0**	**482 453**
Increase from:	**112 959**	**38 538**	**6 559**	**0**	**158 056**
- amortization	112 959	38 538	6 559	0	**158 056**
Decrease	**0**	**0**	**0**	**0**	**0**
Redemption as of December 31st, 2019	**451 855**	**160 578**	**28 076**	**0**	**640 509**
Updating copies as of December 31st, 2019	**0**	**0**	**0**	**0**	**0**
Balance sheet net value as of December 31st, 2019	**15 461**	**32 117**	**1 935**	**9 890**	**59 403**

Changes of individual groups of tangible fixed assets by type for 2018 are presented in the table below:

Specification	Buildings and constructions	Machines and devices	Means of transport	Other fixed assets	Advance payments on fixed assets	Total
Balance sheet gross value as of January 1st, 2018	**33 156**	**301 993**	**292 801**	**18 969**	**0**	**646 919**
Increase from:	**0**	**70 908**	**0**	**5 257**	**8 130**	**84 295**
- purchase of fixed assets	0	70 908	0	5 257	8 130	**84 295**
Decrease from:	**33 156**	**0**	**98 152**	**0**	**0**	**131 308**
- disposal	0	0	98 152	0	0	**98 152**
- other	33 156	0	0	0	0	**33 156**
Balance sheet gross value as of December 31st, 2018	**0**	**372 901**	**194 649**	**24 226**	**8 130**	**599 906**
Redemption as of January 1st, 2018	**5 283**	**222 956**	**118 967**	**15 551**	**0**	**362 757**
Increase from:	**2 211**	**115 940**	**43 544**	**5 966**	**0**	**167 661**
- amortization	2 211	115 940	43 544	5 966	0	**167 661**
Decrease	**7 494**	**0**	**40 471**	**0**	**0**	**47 965**
Redemption as of December 31st, 2018	**0**	**338 896**	**122 040**	**21 517**	**0**	**482 453**
Updating copies as of December 31st, 2018	**0**	**0**	**0**	**0**	**0**	**0**
Balance sheet net value as of December 31st, 2018	**0**	**34 005**	**72 609**	**2 709**	**8 130**	**117 453**

Changes of individual groups of 'right-of-use assets' by type for 2019 are presented in the table below:

Specification	Machines and devices and other	Means of transport	Total
Balance sheet gross value as of January 1st , 2019	**0**	**0**	**0**
Increase from:	**276 503**	**883 250**	**1 159 753**
- purchase of fixed assets	276 503	883 250	**1 159 753**
Decrease	**0**	**0**	**0**
Balance sheet gross value as of December 31st, 2019	**276 503**	**883 250**	**1 159 753**
Redemption as of January 1st, 2019	**0**	**0**	**0**
Increase from:	**195 183**	**257 522**	**452 705**
- amortization	195 183	257 522	**452 705**
Decrease	**0**	**0**	**0**
Redemption as of December 31st, 2019	**195 183**	**257 522**	**452 705**
Updating copies as of December 31st, 2019	**0**	**0**	**0**
Balance sheet net value as of December 31st, 2019	**81 320**	**625 728**	**707 048**

Note 10. INTANGIBLE ASSETS

The structure of intangible assets divided into main items is presented in the table below:

Specification	31.12.2019	31.12.2018
DSP license	14 762 524	0
UnBlock 3.2.1.	15 599 676	0
Goodwill	2 526 018	2 526 018
OnAudience DMP platform	298 626	574 281
Development of the DMP platform – under construction	671 723	
Total	**33 858 567**	**3 100 299**

The presented goodwill was recognized in the Q4 of 2017 as a result of the purchase of organized part of enterprise by Online Advertising Network subsidiary company that is a part of the Group.

License for the DSP platform was purchased in January 2019 by OnAudience Ltd subsidiary company and is a subject to amortization for the period of 8 years. In September 2019, the Group received development works (new functionalities and software improvements, increasing the scope of the license) concerning the DSP platform that were decided to be recognized as a new item of intangible assets (the value of the purchased platform development services is presented together with the net base value of the platform). Development works are amortized in compliance with remaining period of platform's amortization. The Group is planning to purchase new DSP license upgrades in the following periods, per demand of the platform's users.

In the 4Q of 2019, the UnBlock software, created with the help of PARP grant as a part of 3.2.1. project, was completed and received. The created system was recognized in the books in the amount of PLN 15.98 million, and is subject to amortization for the period of 7 years. The developed system will enhance the Group's product offer. Technical solutions developed as a part of creating this system should support other platforms and systems used by the Group.

Disclosed value of the completed development works concerns the OnAudience platform that is the second generation of the DMP platform (Data Management Platform), the technological basis of the Group's operations. Using DMP, the Company gathers, analyzes, processes and distributes anonymous data about behavior of online users. This platform enables the Group to generate revenues (inter alia from the *Data Exchange* service), and was initially presented by the Company as part of short term prepayments. The expected period of economic usefulness of the platform is at least 4 years.

Starting from July 2019, the Company began the process of improving of the currently used generation of the DMP platform. As a part of this process, the platform is planned to be expanded with new functionalities that will be offered to the Group's clients. The total expenses on development works on the DMP include personnel expenses, tools and servers' expenses, as well as directly attributable overhead expenses arising from the process. When the development works are completed, a separate asset (as a part of intangible assets) will be recognized. The improvement works on the DMP were completed in April 2020.

Ownership structure of intangible assets was presented in the table below:

Ownership structure – net value	**31.12.2019**	**31.12.2018**
Owned	33 186 844	3 100 299
Used based on an agreement	0	0
Total	**33 186 844**	**3 100 299**

Changes in individual groups by type of intangible assets for 2019 are presented in the table below:

Specification	**Goodwill**	**Software**	**OnAudience platform**	**Fixed and intangible assets in progress**	**Total**
Balance sheet gross value as of January 1st, 2019	**2 526 018**	**4 116 980**	**1 102 619**	**0**	**7 745 617**
Increase from:	**0**	**32 642 524**	**0**	**671 723**	**33 314 427**
- purchase or recognition of intangible fixed assets	0	32 642 524	0	671 723	**33 314 427**
Decrease	**0**	**0**	**0**	**0**	**0**
Balance sheet Gross value as of December 31st, 2019	**2 526 018**	**36 759 504**	**1 102 619**	**671 723**	**41 059 864**
Amortization as of January 1st, 2019	**0**	**4 116 980**	**528 338**	**0**	**4 645 318**
Increase from:	**0**	**2 280 324**	**275 655**	**0**	**2 555 979**
- amortization	0	2 280 324	275 655	0	**2 555 979**
Decrease	**0**	**0**	**0**	**0**	**0**
Amortization as of December 31st, 2019	**0**	**6 397 304**	**803 993**	**0**	**7 201 297**
Impairments as of December 31st, 2019	**0**	**0**	**0**	**0**	**0**
Balance sheet net value as of December 31st, 2019	**2 526 018**	**30 362 200**	**298 626**	**671 723**	**33 858 567**

Changes in individual groups by type of intangible assets for 2018 are presented in the table below:

Specification	**Goodwill**	**Other fixed and intangible assets**	**OnAudience platform**	**Total**
Balance sheet gross value as of January 1st, 2018	**2 526 018**	**4 116 980**	**1 102 619**	**7 745 617**
Increase	**0**	**0**	**0**	**0**
Decrease	0	0	0	0
Balance sheet gross value as of December 31st, 2018	**2 526 018**	**4 116 980**	**1 102 619**	**7 745 617**
Amortization as of January 1st, 2018	**0**	**4 056 980**	**252 684**	**4 309 664**
Increase from:	**0**	**60 000**	**275 654**	**335 654**
- of amortization	0	60 000	275 654	**335 654**
Decrease	**0**	**0**	**0**	**0**
Amortization as of December 31st, 2018	**0**	**4 116 980**	**528 338**	**4 645 318**
Impairments as of December 31st, 2018	**0**	**0**	**0**	**0**
Balance sheet net value as of December 31st, 2018	**2 526 018**	**0**	**574 281**	**3 100 299**

Note 11. GOODWILL

Description of the purchase of the organized part of the enterprise and company's value valuation

OAN Sp. z o.o. is a company operating in the Internet marketing industry since 2011. OAN activities are divided into two main segments: direct clients service, and agency clients service (mainly large chain media agencies). At the end of June 2017, OAN separated in its activities an organized part of an enterprise, related to direct clients service.

On September 15th, 2017, the Group, through the newly established subsidiary Online Advertising Network Sp. z o.o. ('Online'), purchased an Organized Part of the Enterprise from OAN ('ZCP OAN'). This transaction was aimed to strengthen the market position of Audience Network Sp. z o.o., that is a part of the Group, as well as to use the OAN market position, its trade relations and management staff. What is more, as a result of the purchase of the organized part of the enterprise, refereed as to ZCP through the entire note, OAN achieved access to new technologies offered by Audience Network that will enable the creation of new offer of products and services.

The purchase price of the ZCP OAN initially amounted to PLN 2 million, and then adjusted on November 7th, 2017 to the amount of PLN 2.3 million, based on the data on working capital and net interest debt of OAN, as of September 30th, 2017.

The payment of price by Online was agreed to be made in installments, no later than to June 30th, 2018. As of December 31st, 2017, the remaining payment obligation was PLN 0.3 million. As of December 31st, 2018, the full price was paid.

To enable Online to pay the purchase price for ZCP OAN, the Parent company provided Online with long-term loans with the due term up to 5 years, and interest rate of 5% per year. As of 31 December 2018, the loan capital was PLN 2.3 million

As a part of the transaction, Online and OAN signed a commercial cooperation agreement. On the basis of this agreement, OAN is obliged to subcontract the implementation of marketing campaigns from agency clients to Online.

ZCP OAN purchased by Online includes, inter alia, the following components:
(a) Receivables from OAN's direct clients,
(b) Trade liabilities towards selected OAN contractors,
(c) OAN trademarks and brands,
(d) Other intangible assets such as licenses, rights to domains,
(e) Know-how and commercial relations in the field of servicing and acquiring direct customers.

Regardless of the indicated ZCP OAN components, Online signed cooperation agreements with key associates of the OAN company, as well as long-term management contracts with OAN's Board of Directors.

As a part of the transaction, Online - the subsidiary company – incurred tax on civil law transactions expenses in the amount of 1% from the value of the acquired property rights. This expense was recognized as a part of operating expenses of Online in the item 'Taxes and charges' (also presented in the item 'general management expenses').

The calculation of the goodwill, disclosed in the balance sheet of the Group, is presented in the table below:

Specification	***31.12.2017***
Purchase price of the organized part of the enterprise	2 300 000
Trade receivable assigned to the organized part of the enterprise	(108 684)
Balance sheet net value of intangible assets of organized part of the enterprise	(80 000)
Trade liabilities assigned to the organized part of the enterprise	414 702
Goodwill in all	**2 526 018**

Test on the loss of value and calculation of the value in use

The goodwill of the company is not a subject to amortization, but is a subject to tests on the loss of value prepared at least once annually. The Group's Board of Directors performed a test on the loss of value as of December 31st, 2019.

For the purposes of the test, the goodwill was first assigned to the *Data services* operating segment, and then to the cash generating centre that is Online Advertising Network.

The test on the loss of goodwill consists of comparing of the balance sheet value of the centre to whom this goodwill was assigned, and with its recoverable amount. The balance sheet value of the center was established as a sum of balance sheet value of the assets included in the center, as well as the goodwill.

As a part of the performed test, a recoverable value of the center was calculated by computing the center's value in use i.e. the present value of estimated future cash flows that are expected to be obtained from the continued use of assets' component or the centre generating cash.

To calculate the value in use, a financial model for Online Advertising Network was prepared, as a result of which potential financial results of the company in the next few years were estimated. Those forecasts were used to create the DCF valuation of Online Advertising Network. The prepared valuation was compared to balance sheet value of consolidated net assets that belong to Online Advertising Network, including the goodwill assigned to them. Due to the fact that the value of the received valuation was higher than estimated in the above explanation, the Board of Directors of the Parent company did not have a basis to perform a goodwill impairment.

Key assumptions used to calculate the value in use

The value in use of the facility was valued on the basis of the following assumptions:
(a) Financial projections for the 2020-2023 period;
(b) The sales budget for 2020, and estimates of the Board of Directors concerning further revenues increase (28% in 2020 and 25-27% in the period 2021-2023);
(c) Residual growth rate of free cash flows in the amount of 2%;
(d) Historical growth trend of the digital advertising market in Poland, display advertising market, value of the programmatic as well as performance marketing, in compliance with data and reports prepared by IAB Polska;
(e) Calculation of discount rate for the DCF model equal to the weighted average cost of capital (WACC), calculated on the basis of equity cost (based on CAPM model for each year of the projections) in an average amount of 10% and financial cost of an average of 5%.

The assumptions for the projections were made on the basis of:
- current results of the center for the period September-December 2017, January-December 2018, and January-December 2019,
- historical financial data of the subsidiary company Audience Network, operating on a market similar to the market of the center,
- historical financial results of the OAN Sp. z o.o. (ZCP OAN sellers).

Sensitivity to changes in the assumptions

In case of estimating the value in use, the Board of Directors of the parent company, as of the date of publication of the report, believes that any reasonably possible change in any of the key assumptions described above, will not cause the balance sheet value of the centre to significantly exceed its recoverable amount.

Note 12. SHORT-TERM RECEIVABLES

Short-term receivables of the Group, divided into receivables from related entities excluded from consolidation, and other entities, as of December 31st, 2018 and December 31st, 2019, are presented in the table below:

Specification	**31.12.2019**	**31.12.2018**
I. Receivables from related entities, excluded from consolidation, out of which:	**128**	**354 507**
trade	0	310 018
other	128	44 489
II. Receivables from other entities, out of which:	**36 283 758**	**47 266 449**
Trade	25 812 156	42 917 540
due to taxes and social securities:	1 802 275	1 501 885
VAT	1 789 179	1 483 229
PIT	13 096	18 656
income tax receivable	3 506 693	0
deposit under the lease agreement	2 746 899	2 773 668
other	2 415 735	73 356
III. Short-term receivables in all	**36 283 758**	**47 620 956**

Trade receivables (from supplies and services) are the main component of the Group's short-term receivables.

Trade receivables from other entities decreased in 2019 by PLN 17.1 million if compared to December 31st, 2019. Income from repaid receivables were the main source of financing investments made by the Group in 2019.

The item 'other receivables, encompasses also the granted, but not received part of the PARP grant (in the amount of around PLN 2.26 million). The grant was received by the Parent company in the I quarter of 2020.

The second most important component of tax receivables is VAT (PLN 1.8 million). As of December 31st, 2019, the Group has also significant CIT receivables (PLN 3.5 million). The CIT receivable results from the excess of advance payments made in the line with the actual tax burden of the parent company due to corporate income tax. The parent company applied for the return of the CIT overpayment on the occasion of the annual CIT settlement for 2019.

Trade receivables do not bear interest and usually have a payment term not exceeding 60 days. The exception are affiliate networks – the invoice payment deadline may exceed 180 days due to the time-consuming process of settling services provided by the Group in a given settlement period.

Aging of net trade receivables as of the balance sheet date, is presented in the table below:

Specification	**In all**	**Not overdue**	**Overdue but collectable**				
			< 60 days	**60 – 90 days**	**90 –180 days**	**180 – 360 days**	**>360 days**
31.12.2019	**25 812 156**	**8 816 816**	**5 776 932**	**3 405 863**	**4 160 671**	**3 651 873**	**0**
Towards related entities*	0	0	0	0	0	0	0
Towards other entities	25 812 156	8 816 816	5 776 932	3 405 863	4 160 671	3 651 873	0
31.12.2018	**43 227 558**	**12 382 291**	**974 228**	**4 187 163**	**7 937 363**	**12 920 577**	**4 825 936**
Towards related entities*	310 018	3 613	1 778	250	750	303 627	0
Towards other entities	42 917 540	12 378 678	972 450	4 186 913	7 936 613	12 616 950	4 825 936

*excluded from consolidation

In compliance with the Group's accounting policy, overdue receivables of more than 365 days should be written off completely. As of December 31st, 2019, there were no such trade liabilities from external entities.

As of December 31st, 2019, total trade receivables of the Group from the main client were EUR 4.3 million, out of which EUR 3.5 million were overdue. The agreement signed in 2019 with the main contractor, regarding the repayment of receivables has been fully executed.

In compliance with accounting policy of the Company, in 2019 there were expected credit losses on receivables in the total amount of PLN 337 thousand recognized, according to information provided in the table below, and in 2018 for the amount of PLN 299 thousand:

Specification	31.12.2019	31.12.2018
I. Related entities		
Expected credit losses on receivables at the beginning of the year	**101 209**	**0**
Increase	239 627	101 209
Decrease	0	0
Expected credit losses on receivables at the end of the year	**340 836**	**101 209**
II. Other entities		
Expected credit losses on receivables at the beginning of the year	**199 039**	**22 609**
Increase	97 421	198 022
Decrease	34 915	21 592
Expected credit losses on receivables at the end of the year	**261 554**	**199 039**
III. Total expected credit losses on receivables at the end of the period	**602 380**	**300 248**

Note 13. ACCRUALS AND PREPAYMENTS

The table below presents information on the main components of long-term accruals as of the balance sheet date:

Specification	31.12.2019	31.12.2018
deferred tax assets	266 597	175 229
Long-term accruals	**266 597**	**175 229**

Detailed calculations of the above asset are presented in Note 6.

The table below presents main components of prepayments as of the balance sheet date:

Specification	31.12.2019	31.12.2018
property insurance	34 221	38 192
car insurance	14 316	9 881
new mobile games development costs	0	595 194
other accruals	9 178	3 120
Short term prepayments	**57 715**	**646 387**

In 2019, the Parent company purchased software module as a part of the project 3.2.1. under a grant, referred to in the Issuer's ESPI 9/2018 statement. Those modules were presented as a part of short term prepayments until the commercialization of the software that took place on November 30th, 2019, when it was recognized as fixed and intangible assets. The created fixed and intangible assets of almost PLN 16 million net value were subject to D&A, while concurrently the obtained subsidy was recognized as part of other operating revenues.

Historically, development expenses of new but not yet released mobile games, including primarily personnel expenses, office expenses and tools expense, were a significant item of short term prepayments. Due to the fact that the new titles did not start generating revenues by the end of 2019, the Parent Company charged the current results for the period on a one—off basis with the historical production cost of the title (worth PLN 595 thousand, recognized in other operating expenses). The Parent Company is presently considering an attempt to resell the property rights to the developed titles to an entity specializing in mobile games industry.

Note 14. CONTRACT ASSETS

Specification	31.12.2019	31.12.2018
assets from contracts with clients	56 275	371 000
Total	**56 275**	**371 000**

Contract assets concern those clients for which there is a monthly shift between the invoicing period and the client's delivery of contracted services, that are the basis for issuing the invoices by the Group. The established level of revenue provision is an estimate of monthly revenues from those clients and is estimated every quarter. The difference between the level of provisions estimated in a given quarter and the level of provisions created in the previous quarter is recorded in the revenue of a given quarter from the sale of data and technology.

Note 15. SHORT-TERM INVESTMENTS INCLUDING CASH AND CASH EQUIVALENTS

Specification of the Group's cash and cash equivalents is presented in the table below:

	31.12.2019	31.12.2018
cash in hand and cash in bank	4 814 886	13 053 943
granted short-term loans	10 744	0
other cash assets	0	0
Total	**4 825 630**	**13 053 943**

The vast majority of free cash is kept in the PLN currency, and to a small extent in USD, GBP and EUR. The currency structure of cash is a reflection of payments from the Group's counterparties most of whom are foreign clients. The current accounts are interest free. In case of the EUR currency, the Group is charged with commission costs for keeping the balance on accounts above the level negotiated with the bank.

There are no restrictions on the disposal of cash by the Group.

Note 16. EQUITY CAPITAL

Specification	31.12.2019	31.12.2018
Number of shares	4 600 000	4 600 000
Nominal value of shares	0.10	0.10
Equity capital	**460 000**	**460 000**

All shares are paid. There is no preferred stock.

The share capital of the Parent company comes from the issuing of the following shares:

Series/issue type of shares	Type of preferred stock	Type of limitation of rights to shares	Number of shares	Nominal value	Value of series/issue according to nominal value	Capital coverage method	Date of registration Date of resolution
Serie A	none	shares granted in the proportion1/1000 to the current shareholders	3 000 000	0.10	300 000	The transformation of Cloud Technologies Sp. z o.o. into Cloud Technologies SA	2011-12-22 2011-12-07
Serie B	none	issue through a private subscription, depriving the current shareholders of the pre-emptive right	300 000	0.10	30 000	Cash contribution	2012-03-08 2012-02-15
Serie C	none	issue through a private subscription, depriving the current shareholders of the pre-emptive right	700 000	0.10	70 000	Cash contribution	2014-11-20 2014-06-16
Serie D	none	issue through a private subscription, depriving the current shareholders of the pre-emptive right	200 000	0.10	20 000	Cash contribution	2015-06-15 2014-12-19

Serie E	none	issue through a private subscription, as a part of target capital, depriving the current shareholders of the pre-emptive right	150 000	0.10	15 000	Cash contribution	2016-03-21 2015-12-21
Serie F	none	issue through a private subscription, as a part of target capital, depriving the current shareholders of the pre-emptive right	250 000	010	25 000	Cash contribution	2016-03-21 2015-12-21

All series of shares are admitted to public trading, and the Parent Company owns own shares described in Note 17.

The ownership structure as well as percent of the owned by the Parent company shares on December 31st, 2019 (in compliance with the share register of Cloud Technologies S.A.) are as follows:

Shareholders	Number of shares	% of share capital	Number of votes	% of votes
Prajsnar Piotr	1 277 000	27.76%	1 277 000	27.76%
Perpetum 10 FIZ AN	1 414 666	30.75%	1 414 666	30.75%
Cloud Technologies S.A.	299 400	6.51%	299 400	6.51%
other up to 5%	1 608 934	34.98%	1 608 934	34.98%
Total	**4 600 000**	**100.00%**	**4 600 000**	**100.00%**

In accordance with the resolution of the general meeting of May 30th, 2018, the Board of Directors of the Parent Company can increase the share equity capital within the target capital by a total amount of no more than PLN 40 thousands by issuing common stock with the nominal value of PLN 0.10 per share, no more than 400 000 shares. The Board of Directors is authorized to increase the equity capital and to issue shares as a part of target capital by December 31st, 2020.

Note 17. OWN SHARES AND RESERVE CAPITAL

Own shares	31.12.2019	31.12.2018
As of the beginning of the period	**18 000 000**	**18 000 000**
purchased during the period	0	0
decrease or disposal	0	0
As of the end of the period	**18 000 000**	**18 000 000**

In order to carry out the withdrawal of own shares, in compliance with the resolution of the Extraordinary General Meeting of Shareholders of Cloud Technologies S.A. from November 27th, 2017, the Parent company separated reserve capital from supplementary capital in the amount of PLN 18 million.

Subsequently, as a result of withdrawal of own shares carried out in December 2017, the Parent Company purchased 299 400 shares at an average price of PLN 60.12, with a total value of PLN 18 million.

Shares purchased by the Parent Company can be designated for (a) cancellation, (b) resale, or (c) offer to be purchased by employees of people who had been employed in the Parent company or subsidiary company connected to the Parent company for at least three years. As of the date of publication of this report, the Board of Directors of the Parent company has not made any binding decisions in the scope of own shares allocation.

Note 18. SUPPLEMENTARY CAPITAL AND OTHER CAPITAL

Specification	31.12.2019	31.12.2018
Supplementary capital from profits of previous years	25 200 627	23 093 479
Supplementary capital from issuing of shares above their nominal value	13 685 000	13 685 000
Capital from the valuation of incentive program	24 415 000	24 415 000
Retained earnings	(1 191 248)	51 834
Total	**62 109 379**	**61 245 313**

Note 19. OTHER FINANCIAL LIABILITIES

Historically, the only item of long-term liabilities constituted financial liabilities towards other entities, concerning long-term financial leases of some cars, as well as liabilities arising from derivative instruments (forward contracts).

In compliance with IFRS 16 provisions, the Group analyzed contracts with clients in terms of recognizing selected contracts as lease contracts in compliance with guidelines of the new standard. On the basis of this analysis, certain agreements were identified as lease agreements, including operating lease agreements and server lease agreements. As a part of the recognition, contractual obligations and the right to use assets were calculated.

Specification	31.12.2019	31.12.2018
lease liabilities	737 703	0
liabilities from forward contracts	0	34 179
Other financial liabilities in all	**737 703**	**34 179**
- long-term	494 929	0
- short-term	242 774	34 179

As of December 31st, 2019, the Group was not a party to other interest-bearing financial liabilities, except for signed, lease agreements in compliance with IFRS 16. The reconciliation of minimum lease payments under financial lease agreements is presented in the table below:

Specification	31.12.2019		31.12.2018	
	Minimum expenses	Current value of expenses	Minimum expenses	Current value of expenses
Within 1 year	242 774	242 774	0	0
In the period from 1 to 5 years	494 929	494 929	0	0
Above 5 years	0	0	0	0
Minimum lease expenses in all	**737 703**	**737 703**	**0**	0
Future interests expenses	44 616	0	0	0
Current minimum value of lease expenses, including:	**737 703**	**737 703**	**0**	**0**
- short-term	242 774	0	0	0
- long-term	494 929	0	0	0

Disclosure of changes in the scope of other financial liabilities, in compliance with IAS 7, are presented in the table below:

Specification	31.12.2018	No-monetary changes				31.12.2019
		Cash flows	Lease disclosure	Exchange rates differences	Changes in fair value	
Bank credits	0	0	0	0	0	0
Financial lease liabilities	0	422 050	1 159 753	0.	0	737 703
Forward contract liabilities	34 179	0	0	0	(34 179)	0
Total financial liabilities	**34 179**	**422 050**	**1 159 753**	**0.**	**0**	**737 703**

The Group currently does not have any interest-bearing debt (such as credit, loans or debt securities).

Additionally, the Group is a party to operating lease agreements. In particular, it is a party to the following agreements:
(a) Contract for the rental of office space
(b) Contacts for the rental of computer equipment and workstations
(c) Server lease agreement
(d) Car operating lease agreements

Most of those agreements were signed in 2018. For each of the agreement, its most probable duration was established.

In accordance with the analysis of the IFRS 16 impact, in case of the rental of office space contract, an exemption for short-term agreements was used; for the rental of computer equipment contract, an exemption of a low separate value was used; the server lease agreement, as well as car operating lease agreements, are treated as financial leases from the first quarter of 2019.

Note 20. TRADE PAYABLES AND OTHER LIABILITIES

The amount of the Group's trade payables and other short-term liabilities, divided into liabilities towards related entities excluded from consolidation, and others, was presented in the table below:

	31.12.2019	31.12.2018
I. Towards related entities excluded from consolidation, out of which:	**8 644**	**360 697**
trade payables	738	359 863
other	7 906	834
II. Towards other entities	**6 235 846**	**4 578 715**
trade payables	6 153 739	4 525 158
arising from taxes and social security	71 518	42 633
from payroll	3 817	0
other	6 772	10 924
III. Total short-term liabilities	**6 244 490**	**4 939 412**

Trade liabilities towards other entities relate mainly to current payments to the Group's contractors, the most important of which are providers of advertising space and liabilities for the operating of the DSP platform in OnAudience Ltd.

The aging of trade liabilities, divided into liabilities towards related entities excluded from consolidation and towards other entities is presented below:

Specification	In all	Not overdue	Overdue but collectable				
			< 60 days	61 – 90 days	91 – 180 days	181 – 360 days	>360 days
31.12.2019	**6 154 477**	**3 228 450**	**1 332 578**	**455 589**	**1 027 679**	**110 181**	**0**
Towards related entities*	738	0	738	0	0	0	0
Towards other entities	6 153 739	3 228 450	1 331 840	455 589	1 027 679	110 181	0
31.12.2018	**4 885 021**	**4 023 273**	**660 800**	**113 178**	**22 390**	**65 379**	**0**
Towards related entities*	359 863	83 936	184 635	89 816	738	738	0
Towards other entities	4 525 158	3 939 337	476 165	23 362	21 652	64 641	0

*excluded from consolidation

The Group regularly settles its trade payables. Possible delays in payments usually relate to situations when it is necessary to establish the correct balance of settlements with a client, which in the case of foreign contractors may be time-consuming.

Note 21. REVENUES OF FUTURE PERIODS

Specification	31.12.2019	31.12.2018
Awarded grants	9 230 209	0
Total revenues of future periods	**9 230 209**	

Presented revenues of future periods concern a grant awarded to create an UnBlock software that was finished in November 2019 (in accordance to information included in Note concerning fixed and intangible assets). The awarded grant accounts for approximately 60% of the value of assets purchased from the grant. In compliance with accounting policy of the Group, the grant will be recognized in the same period as the expected economic useful life of the UnBlock software, that is 7 years.

Note 22. OTHER RESERVES

Specification	31.12.2019	31.12.2018
Reserve on service expenses	1 119 434	322 296
Total accruals	**1 119 434**	**322 296**

The most important item is the Group's reserve on expenses concerning primarily media expenses for which – as of the balance sheet date - the Group did not receive appropriate cost invoices, including cautionary reserves established at the end of the financial year (such as reserves for the expenses on audit of financial statements, or on the preparation of the annual financial statement).

A more detailed change in reserves is presented in the table below:

Specification	Passive accrual of expenses
As of January 1st, 2019	**322 296**
Created during the financial year	1 119 434
Used	76 113
Not used	246 183
As of December 31st, 2019	**1 119 434**
As of January 1st, 2018	**575 000**
Created during the financial year	776 842
Used	185 773
Not used	843 773
As of December 31st, 2018	**322 296**

Note 23. EXPLANATION TO MAIN CASH FLOWS

The Group consistently allocated generated surplus of funds for the implementation of significant investment projects, including the completion of the 3.2.1. project covered by a grant. As a part of the works on software implementation, expenditure of nearly PLN 16.7 million was incurred in 2019, as a result of which at the end of November 2019, the last software modules were finished and amortization of the new asset began. Parent Company also granted a loan of significant value to its subsidiary company OnAudience Ltd in 2019. Due to the loan, the purchase of a license for the DSP platform was possible.

The investment were finalized primarily from the cash owned by the Parent Company, mainly from the payments of trade receivables. In 2019, the Parent company received a subsidy in a form of a reimbursement of a significant part of the capital expenditure incurred for a total amount of PLN 7.3 million. In March 2020, the Parent company received the remaining part of the grant in the amount of PLN 2.26 million.

Note 24. AIMS AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

The main financial instruments used by the Group include financial lease agreements with an option to purchase and cash. The main aim of those financial instruments is to obtain cash on the Group's activities.

The Group has also other financial instruments such as loan receivables and trade payables and receivables that are directly connected to the course of the Group's operations.

The Group does not enter into derivative transactions except for transactions of the forward type that aim to secure the Group against currency risk.

The main types of risk resulting from financial instruments include currency risk, credit risk, interest rate risk, and liquidity risk. The Board of Directors verifies and agrees on rules for managing of each of those risks – those rules are briefly discussed below. The Group also monitors risk arising from market prices concerning all owned financial instruments.

The degree of exposure to market risk

To convert the following items into PLN, there were used the following exchange rates:

(a) For data on 31.12.2018: EUR/PLN – 4.3000, USD/PLN – 3.7597, GBP/PLN – 4.7895
(b) For data on 31.12.2019: EUR/PLN – 4.2585, USD/PLN – 3.7977, GBP/PLN – 4.9971

Assets and financial liabilities 31.12.2018	Currencies		
	EUR	USD	GBP
Cash	4 219 721	394 321	72 372
Loans and liabilities	40 212 207	1 021 696	10 203
Liabilities from forward contracts	34 179	0	0
Trade liabilities	950 893	583 399	0
Other liabilities	6 153	0	1 532

Assets and financial liabilities 31.12.2019	**Currencies**		
	EUR	**USD**	**GBP**
Cash	919 453	490 681	235 682
Loans and liabilities	22 049 449	1 844 625	316 401
Trade liabilities	536 345	687 461	750
Other liabilities	5 715	1 867	42

Data in the tables presented above were converted into PLN.

Currency risk

Due to international nature of the Group's activity, the Group is exposed to currency risk, in accordance to information provided in Note 5. As of 31 December 2019, the Group does not use any instruments protecting against currency risk.

The amounts of the main currency components of assets and liabilities, divided into significant currencies written down in the Polish currency are presented in the tables below:

As of 31.12.2018	**Cash (in PLN)**	**Trade receivables (in PLN)**	**Trade liabilities (in PLN)**
Currency– EUR	4 219 721	37 414 502	950 893
Currency – USD	394 321	1 012 602	583 399
Currency – GBP	72 372	-	-
Currency – PLN	8 367 529	4 802 284	3 350 727
Total	**13 053 943**	**43 229 388**	**4 885 019**

As of 31.12.2019	**Cash (in PLN)**	**Trade receivables (in PLN)**	**Trade liabilities (in PLN)**
Currency – EUR	919 453	19 295 051	536 345
Currency – USD	490 681	1 844 625	687 461
Currency – GBP	235 682	315 857	750
Currency – PLN	3 169 069	4 356 624	4 929 923
Total	**4 814 886**	**25 812 157**	**6 154 479**

The results of analysis on the sensitivity of exchange rates changes to individual elements of assets and liabilities are presented in tables below:

As of 31.12.2018	**Cash (in PLN)**	**Trade receivables (in PLN)**	**Trade liabilities (in PLN)**
Total currency items	4 686 414	38 427 104	1 534 292
Exchange rates change +10%	5 155 055	42 269 814	1 687 721
Exchange rates change -10%	4 217 773	34 584 394	1 380 863

As of 31.12.2019	**Cash (in PLN)**	**Trade receivables (in PLN)**	**Trade liabilities (in PLN)**
Total currency items	1 645 817	21 455 533	1 224 556
Exchange rates change +10%	1 810 399	23 601 086	1 347 012
Exchange rates change -10%	1 481 235	19 309 980	1 102 100

Interest rate risk

Exposure to risk caused by changes of interest rates concerns primarily funds in bank accounts and long-term financial liabilities (leases).

As of the balance sheet date, cash was accumulated on current accounts that are interest-free. The interest rate on the lease liabilities is based on the variable WIBOR 1M rate.

As of the balance sheet date, the Group does not have any interest debt obligation, except for leases.

Liquidity risk

The Group monitors the risk of lack of funds through ongoing monitoring of cash flows, including permanent review of working capital as well as liabilities and receivables.

Due to the fact that it has significant cash surpluses with a practically negligible level of interest debt, the Group has excess liquidity as of 31 December 2019.

Credit risk

Credit risk means that the counterparty will not make payment on time for the Group's liabilities, or will fail to meet Group's obligation in other way.

With regard to other financial assets, such as cash and cash equivalents, financial assets available for sale, the Group's credit risk arises from the inability of the counterparty to make payment, and maximum exposure to this risk is equal to the balance sheet value of a given instrument.

As of 31 December 2019, there were overdue liabilities receivables in the Company. The Company analyzes the validity of the calculation of expected losses in compliance with IFRS 9, to present an adjusted level of trade receivables in the books.

Ageing of receivables is provided in Note 12.

Note 25. INFORMATION ABOUT FINANCIAL INSTRUMENTS

The table below presents a comparison of balance sheet values as well as fair values of all financial instruments, divided into individual classes and categories of assets and liabilities for 2019 and comparative data for 2018:

FINANCIAL ASSETS	Balance sheet value		Fair value		Category of financial instruments
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	
Loans granted	23 695	0	23 695	0	Valuation according to amortized cost
Cash and cash equivalents	4 814 886	13 053 943	4 814 886	13 053 943	Valuation according to amortized cost
Trade receivables and other receivables	31 058 917	46 119 071	31 058 917	46 119 071	Valuation according to amortized cost

FINANCIAL LIABILITIES	Balance sheet value		Fair value		Category of financial instruments
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	
Lease liabilities	737 703	0	737 703	0	Valuation according to amortized cost
Derivative instruments liabilities	0	34 179	0	34 179	Valuation in FV through P&L
Trade liabilities and other liabilities	6 244 490	4 939 412	6 244 490	4 939 412	Valuation according to amortized cost

Note 26. CAPITAL MANAGEMENT

The main goal of capital management is to maintain a good credit rating and safe capital ratios that would support operating activities and increase the value for its shareholders.

The Group monitors capital using a leverage ratio that is the ratio of net debt to total capital plus net debt. Net debt includes interest-bearing loans and credits, trade liabilities and other liabilities minus cash and cash equivalents. The capital includes equity attributed to shareholders of the Parent company minus reserve capital from unrealized profits.

Specification	31.12.2019	31.12.2018
Interest-bearing loans and credits	0	0
Trade liabilities and other liabilities	6 244 490	4 939 412
Minus cash and cash equivalents	4 814 886	13 053 943
Net debt	**1 429 604**	**(8 114 531)**

Specification	31.12.2019	31.12.2018
Equity	58 739 495	62 577 300
Reserve capital from unrealized profits	0	0
Capital in all	**58 739 495**	**62 577 300**
Capital and net debt	**60 169 099**	**54 462 769**
Leverage ratio	***2.4%***	***(14.9%)***

Note 27. INFORMATION ABOUT RELATED ENTITIES

In 2019, the Group noted significant transactions with the following related entities:

(a) Audience Network Sp. z o.o. („AN"), subsidiary company
(b) Cloud Technologies S.A. ("CT"), parent company
(c) OnAudience Ltd („OnAudience"), subsidiary company
(d) Online Advertising Network Sp. z o.o. („Online"), subsidiary company
(e) OAN Sp. z o.o. ("OAN"), related entity

A related entity is understood as entity that met the criterion of being considered a related entity during 2019 (even for one day). In the tables presented below, transactions with entities that had the status of a related entity in the previous comparative period (2018) were eliminated, if this status was lost by January 1st, 2019.

The following table presents total amounts of transactions with the mentioned related entities for current and previous financial year for the Parent Company. The column 'sale' includes also interest income on loans granted.

Related entity	Sales to related entities		Purchase from related entities		Trade receivables from related entities		Loan receivables from related entities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
AN	4 963 276	5 208 624	0	3 600	2 118 217	1 451 281	0	0
OnAudience	13 605 883	12 509	44 178	0	13 892 433	370 381	18 287 096	367 725
Online	147 646	240 051	43 833	3 492	282 837	2 554 218	2 639 411	2 440 212
Total	**19 439 950**	**5 461 184**	**88 011**	**7 092**	**16 292 847**	**4 375 880**	**20 926 507**	**2 807 937**

The following table presents total amounts of transactions with the mentioned related entities for current and previous financial year for Audience Network, the Group's subsidiary company:

Related entity	Sales to related entities		Purchase from related entities		Trade receivables from related entities		Liabilities to related entities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
CT	0	3 600	4 963 276	5 208 624	0	0	2 118 217	1 451 281
OAN	0	0	966 205	1 386 289	0	0	0	0
OnAudience	53 179	0	15 440 747	0	53 175	0	15 137 906	0
Online	413 422	191 959	812 440	1 920	897 842	530 163	49 985	0
Total	**466 601**	**195 559**	**22 182 668**	**6 596 833**	**951 017**	**530 163**	**17 306 108**	**1 451 281**

The following table presents total amounts of transactions with the mentioned related entities for current and previous financial year for Online Advertising Network, the Group's subsidiary company:

Related entity	Sales to related entities		Purchase from related entities		Trade receivables from related entities		Liabilities to related entities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
AN	812 440	1 920	413 422	191 959	49 985	0	897 842	530 163
CT	43 833	3 492	266 845	240 051	0	0	2 922 249	2 554 218
OAN	0	221 936	442 749	1 145 973	0	304 899	0	356 911
OnAudience	40 599	0	225 606	0	15 588	0	217 754	0
Total	**896 872**	**227 348**	**1 348 622**	**1 577 983**	**65 573**	**304 899**	**4 037 845**	**3 441 292**

The following table presents total amounts of transactions with the mentioned related entities for current and previous financial year for OnAudience Ltd, the Group's subsidiary company:

Related entity	Sales to related entities		Purchase from related entities		Trade receivables from related entities		Liabilities to related entities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
AN	15 429 982	0	53 179	0	15 137 906	0	53 175	0
CT	0	0	14 209 829	12 509	0	0	32 179 529	370 381
Online	220 503	0	40 599	0	217 754	0	15 588	0
Total	**15 650 485**	**0**	**14 303 607**	**12 509**	**15 355 660**	**0**	**32 248 292**	**370 381**

Description of transactions with related entities

In 2019, the most significant transactions with related entities concerned:

a) **Transactions of CT with AN:** re-invoicing of advertising space purchase, shared services (including advertising space rental), data purchase expenses.
b) **Transactions of CT with Online**: granting a shareholder loan, re-invoicing of expenses, shared services (including office space rental).
c) **Transactions of CT with OnAudience**: granting a shareholder loan on the purchase of the DSP platform, license on the DMP platform, re-invoicing of advertising space expenses.
d) **Transactions of AN with OAN**: brokerage in the purchase of advertising space.
e) **Transactions of AN with Online**: brokerage in the purchase of advertising space, subcontracting of marketing campaigns
f) **Transactions of AN with OnAudience:** sharing a license on the DSP platform, brokering data sales, sharing a license on the DMP platform.
g) **Transactions of Online with OnAudience:** brokering data sales.

Terms of transactions with related entities

Transactions between related entities took place on terms equivalent to market terms

Note 28. THE PAYROLL OF THE SENIOR MANAGEMENT AND SUPERVISORY BOARD

The payroll of the Group's governing bodies individually is presented in the table below:

Board of Directors of the Parent Company payroll	**01.01.2019 - 31.12.2019**	**01.01.2018 - 31.12.2018**
arising from the performed function	0	0
arising from other titles	390 000	325 000
TOTAL Board of Directors of the Parent Company	**390 000**	**325 000**
Board of Directors of Subsidiary companies payroll		
arising from the performed function	94 078	46 424
arising from other titles	1 066 269	1 035 179
TOTAL Board of Directors of the Subsidiary companies	**1 160 347**	**1 081 603**
Supervisory Board of the Parent company payroll		
arising from the performed function	45 000	60 000
arising from other titles	255 293	128 088
TOTAL Supervisory Board of the Group	**300 293**	**188 088**
TOTAL Board of Directors and Supervisory Board of the Group	**1 850 640**	**1 594 691**

All the benefits listed above are categorized by the Group as short-term benefits. In the period covered by this report, the following did not occur:

(a) Post-employment benefits
(b) Jubilee benefits
(c) Termination benefits
(d) Post-employment benefits
(e) Share-based benefits
(f) Other long-term benefits

Apart from the positions indicated above, the Group's members of the governing bodies were not paid any other remuneration, except for the President of the Board of Directors of the Parent company, to whom the Group companies paid a total of PLN 13 thousand in 2019 and PLN 11 thousand in 2018 for other services.

Note 29. EMPLOYEES AND ASSOCIATES

The total number of Group's employees and people cooperating with the Group on the basis of contracts other than employment contracts is presented in the tables below:

The total number of employees and associates, functionally according to the organizational structure for the Parent company:

	31.12.2019	31.12.2018
Board of Directors	1	1
Front office	19	24
Back office	14	12
Total	**34**	**37**

The number of employees and associates, functionally according to the organizational structure for the subsidiary company – Audience Network:

	31.12.2019	31.12.2018
Board of Directors	2	2
Front office	12	9
Total	**14**	**11**

The number of employees and associates, functionally according to the organizational structure for the subsidiary company – Online Advertising Network:

	31.12.2019	31.12.2018
Board of Directors	2	2
Front office	5	6
Total	**7**	**8**

The number of employees and associated, functionally according to the organizational structure for the subsidiary company – OnAudience Ltd:

	31.12.2019	31.12.2018
Board of Directors	2	0
Front office	0	0
Total	**2**	**0**

Total number of employees and associated in the Group:

	31.12.2019	31.12.2018
Cloud Technologies	34	37
Audience Network	14	11
Online Advertising Network	7	8
OnAudience Ltd	2	2
Total	**57**	**58**

As of December 31st, 2018, the Group employed 5 people based on employment contract, as of December 31st, 2019, the number remained the same.

Note 30. INFORMATION ABOUT TRANSACTIONS WITH AUDIT COMPANY AUDITING THE REPORT

Payroll paid or due for the financial year	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
- for the audit of annual stand alone and consolidated report	35 000	39 113

- for other services	0	0
TOTAL	**35 000**	**39 113**

The 2019 Audit was conducted by Ecovis System Rewident Sp. z o.o.

The 2018 Audit was conducted by PKF Consult Sp. z o.o. Sp. k.

Note 31. INFORMATION ON TRANSACTIONS WITH THE AUTHORIZED ADVISOR

Payroll paid	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
- for acting as the Authorized Adviser	12 000	12 000
- for other services	0	20 000
TOTAL	**12 000**	**32 000**

The Authorized Advisor of the Parent Company is IPO Doradztwo Kapitałowe S.A with its registered Office in Warsaw.

Note 32. CONTIGENT LIABILITIES

As of December 31st, 2019, the only significant contingent liabilities relate to in blanco promissory notes signed, securing the Group's car lease agreements.

Note 33. CHANGE OF PRESENTATION OF THE REPORT ON FINANCIAL SITUATION

In order to increase the informative value of the Issuer's financial statement, while creating the report on financial situation for 2019, a decision was made to provide more details and change the presentation of the Group's selected assets and liabilities without changes in value. Changes were also implemented in the scope of shifting expenses of the rent re-invoices between the subsidiary companies of the Group from other operating expenses (previous presentation) to external services that are a part of operating expenses (current presentation). This change has an impact on the reported EBITDA result, however, it does not influence the Group's net result.

The main changes to presentations in the scope of assets, together with their reconciliation for presentation in the financial statement for 2018, are presented below:

Assets		Were 2018	Are 2018
1. Short-term receivables		47 620 956	0
	1.1 Trade receivables	0	43 227 558
	1.2 Other receivables	0	4 393 398
2. Short-term prepayments		1 017 387	0
	2.1 Contract assets	0	371 000
	2.2 Short-term prepayments	0	646 387

Below are presented main presentational changes in the scope of liabilities, including a reconciliation to their presentation in the financial statement for 2018:

Liabilities		Were 2018	Are 2018
1. Supplementary capital and other capital		61 245 313	0
	1.1 Supplementary capital and other capital	0	36 830 313
	1.2 Capital from the valuation of incentive program	0	24 415 000

Below are presented presentational changes in the scope of profit and loss statement, including a reconciliation to their presentation in the financial statement for 2018:

Profit and loss statement	Were 2018	Change	Are 2018
1. Other operating expenses	1 637 823	370 661	1 267 162
2. Operating expenses, including:	42 157 683	370 661	42 528 344
2.1 External services	39 611 615	370 661	39 82 276

Note 34. EVENTS AFTER THE BALANCE SHEET DATE

The most significant events that occurred between December 31st, 2019 and the date of the report publication include:

(a) **Audit on the implementation of the 3.2.1. grant:** since works on the project concluded, and the UnBlock software was launched in December 2019, there was an inspection on the subsidy project carried out on January 29th 2020 in Bialystok, where the Parent company has a branch. This inspection was carried out on the basis of the grant agreement entered into with PARP on June 29th. The project is co-financed by the European Union as a part of Regional Development Fund, Intelligent Development Operational Program, Sub-measure 3.2.1 Research for the market. The control activities included checking whether the project was implemented in accordance with the provisions of the grant agreement, especially whether expenses covered by the grant were actually and rightfully incurred and documented, and the estimated goals and indicators of the project were achieved. On the day of the inspection an inspection protocol on the fixed assets purchased under the project and the created UnBlock IT system was signed. On February 12th 2020, the Company received a letter from PARP concerning the post-control information. In the letter, PARP informed the Company that no reservations were found during the inspection. In March 2020, the Company received the last part of the grant in the amount of PLN 2.26 million.

(b) **Signing a contract with an auditor:** on January 10th, 2020, the Parent Company signed a contract with Ecovis System Rewident Sp. z o.o.. for the audit of standalone and consolidated financial statements for 2019-2020. The agreement was entered into for a specified period of time, necessary to audit the standalone and consolidated financial statements of the Group for 2019-2020.

(c) **COVID-19**: from the beginning of 2020, more and more countries all around the world have noted increasing number of cases of COVID 19. In March 2020 the initial influence of the pandemic on polish economy could be observed. The Board of Directors of the subsidiary companies is currently assessing the impact of COVID-19 on the Group's activity and its development prospects. As of the date of report's publication, the outbreak of COVID pandemic influenced the functioning of the Group, but did not significantly interrupt its basic operating activities. The Group's subsidiary companies implement all decisions and recommendations of the authorities, and are constantly monitoring the situation. Making decisions, they are guided by the care for the health of their employees and associates, as well as the long-term value of the Group. As of the date of the report, the absence of the Group's employees did not raise the risks of disrupting work continuity. The nature of services provided by the Group enables employees and associated of subsidiary companies to perform their duties working remotely. The above assessment was made in accordance with the best knowledge of the Board of Directors of the Parent company as well as subsidiary companies as of the date of the consolidated annual report. The actual scale of future effects of the COVID-19 pandemic and its impact on the Group's activity is currently not known and impossible to estimate. Moreover, it depends on dynamically changing factors that are beyond the control of the Group's companies. The Board of Directors of the Parent company as well as subsidiary companies expects at least a temporary decrease in the level of revenues from sales in the second quarter of 2020 due to the COVID-19 pandemic. Although there is a chance to increase the level of data monetization due to the pandemic (because of restrictions in the movement in many national economies, a large number of people spend more time online), part of the Group's clients have significantly reduced their activities practically overnight (tourism, hotel industry, automotive industry). There is a risk that should pandemic persist over an extended period of time, the Group's prospects in the scope of generating revenues will decrease significantly, leading to a deterioration of the Group's financial results as well as its financial liquidity.

(d) **First agreements for the sale of DMP technology licenses enter into force:** in March 2020, the Parent company finalized the sale of the license to use the proprietary Data Management Platform (DMP) technology for polish company from media industry. This agreement stipulates a 5-year period of license. The transaction amount was PLN 1.2 million net. Revenues from this transaction will be recognized by the Parent company in accordance with the license period. In April 2020, the second agreement on the DMP license came into force – its value is also PLN 1.2 million with conditions similar to those of the agreement described above. The Parent company is conducting preliminary talks with other entities interested in purchasing the DMP license on similar terms as those described in the agreements, and will be aiming to conclude those talks by the end of 2020.

(e) **Signing a contract for the implementation of IT system as a part of a project covered by co-financing under the contract number POIR.03.02.02-00-1528/18-01 entered into on March 15th 2019 between Audience Network Sp. z o.o and Bank Gospodarstwa Krajowego S.A.:** in February 2020, Audience Network signed a contract for the development of an IT system as a part of a project co-financed by Bank Gospodarstwa Krajowego. This project assumes the creation of a platform that would automate the process of data management in digital advertising. It is to be implemented by the end of November 2020. The total cost of the project was estimated to amount to PLN 9.1 million + VAT, with a total subsidy value of PLN 5.1 million. Audience Network will achieve a grant from BGK in the form of repayment of the bank loan capital (granted for a total amount PLN

6 million), paid on the basis of applications submitted in accordance with a schedule specified in the contract. The bank credit activation (as of the publication date it has not been launched yet) will occur after Audience Network pays its own required contribution. The Parent company guaranteed the repayment of this loan.

Warsaw, on May 4th, 2020

Board of Directors
Piotr Prajsnar, Chairman of the Board

Entity responsible for accounting books:
Piotr Kościańczuk, Tax Advisor